SUBMISSION

TO

THE ROYAL COMMISSION ON CORPORATE CONCENTRATION

GOVERNMENT OF CANADA

IMPERIAL OIL LIMITED

Submission

to

THE ROYAL COMMISSION

ON

CORPORATE CONCENTRATION

Government of Canada

IMPERIAL OIL LIMITED

Toronto, Canada

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INTRODUCTION

INTRODUCTION

Imperial Oil Limited (Imperial) submits this brief in response to the invitation from The Royal Commission on Corporate Concentration asking interested Canadians to send the Commission their views on matters covered by its terms of reference which are as follows:

"to inquire into, report upon, and make recommendations concerning:

(a) the nature and role of major concentrations of corporate power in Canada;

(b) the economic and social implications for the public interest of such concentrations; and

(c) whether safeguards exist or may be required to protect the public interest in the presence of such concentrations."

The overall purpose of the brief is to provide the Commission with a reasonably full understanding of Imperial as a very large Canadian corporation which is commonly believed to have considerable corporate power. Mindful of the considerable amount of material which the Commission has already received and probed in its hearings to date, Imperial's brief avoids a general analysis of the theory and literature relating to corporate power. Rather, the brief draws its conclusions from examples of Imperial's experience and from the concepts and methods it has developed over nearly a century of performing an important economic function in Canadian society.

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SUMMARY & RECOMMENDATIONS

I. SUMMARY AND RECOMMENDATIONS

This brief has been written to tell the story of one large company in order to illustrate the importance of corporate capability to Canada today and for the future. It examines the way in which a company grows over many years as the economy grows. It shows how a corporation is a reflection of its people and their qualities. It looks at the way in which those people work together to make the decisions which shape the corporation's activities. It looks at the way in which that growth enables the company to perform its economic task more efficiently.

The brief describes the checks and balances which exist in Canadian society including the way in which effective competition protects consumers, and the way in which public policy direction and regulation ensure that social objectives are met. Finally some future directions are explored in terms of Canada's economic objectives and its social goals.

Recommendations are made in order to enable companies like Imperial to continue to function effectively and to continue to contribute to Canada's material and social aspirations.

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Summary of the Brief

The basic and recurring themes of this brief are threefold:

- The petroleum business as a whole and in particular the development of new domestic energy supplies require the involvement of large efficient organizations.

- Imperial as such an organization has a particular capability to carry on its traditional role as a privately owned supplier of energy to Canadians.

- Imperial's economic power is substantially restrained and directed by competitive market forces and by comprehensive if not over-reaching government regulation and intervention.

Imperial's Concept of its Enterprise

Imperial is active in all the stages of developing Canada's petroleum reserves and of converting petroleum into products usable by industry and the individual consumer. Since its founding 95 years ago, Imperial's role has been to mobilize the resources of capital, technology and skilled management to meet Canada's growing energy needs. Great changes have occurred in the business of an energy producing company that was incorporated before the invention of the automobile. The reliable fuels now used in the modern automobile and jet aircraft did not

even exist anywhere in the present form in the 1880's. The major oil companies, of which Imperial is one, developed the necessary products, found the oil reserves, and built the distribution system and service facilities that enabled the automobile, aviation and other industries to grow and to revolutionize our concepts of time and living.

By any test, Imperial is today one of Canada's largest corporations and its growth has been entirely due to vertical integration within the petroleum industry or the closely associated fields of petrochemicals and fabricated products. Growth has been internal for the most part, except for participation in pipe line and other joint ventures and a few acquisitions.

As the result of growing to its present size and scope, Imperial's contribution in the Canadian economy is significant. The company produces 10% of all Canadian energy fuels, contributes 0.72% of the total goods and services produced in Canada, and in payments of all types provides almost 1% of the total revenues of all governments in Canada. In recent years, earnings have increased as the result of investments made years ago. Still,return on capital employed is comparable to that of other industry.

As another result of its size, scope and maturity Imperial has developed a highly competent management and system of management. The company has been able to develop from within both specialist and general management personnel to match its internal operating needs and to support joint

ventures such as Syncrude. Imperial's system of management emphasizes the early identification of new business opportunities, and through a carefully structured co-ordination process brings particular attention to bear on major investment proposals.

Imperial's relationship with Exxon Corporation is particularly valuable because it provides experience for Imperial personnel, the support of world-wide expertise from Exxon specialists, and the use of Exxon research and technology. There is an historic understanding by Exxon that Imperial's goals and actions must be aligned to Canadian objectives and Imperial's management decisions are largely independent of Exxon. The presence of Canadian shareholders, a tradition of Canadian directors and officers, a Canadian management, a fully developed Canadian staff and technical expertise, massive existing investments in Canada, a heavy current and risky investment program and almost a century of operating in Canada provide assurance that Imperial's decisions are made in the Canadian national interest.

There are certain characteristics of the petroleum industry throughout the world that have shaped the way Imperial operates its business: first, the necessity of taking risks for long periods before they pay off; second, the capital intensive nature of the industry; and third, the importance of research, new technology and innovation.

A prime example of long duration risk-taking is exploration for oil and gas in western Canada which commenced in 1919 and led to the discovery of Imperial Leduc No. 1 nearly 30 years later. A current example is Imperial's exploration in the Arctic which began in a major way in 1964. Further, Imperial began its research in the Athabasca oil sands in the 1950's. As a partner in Syncrude Canada Ltd. it is currently committed to spending hundreds of millions of dollars to make production from the oil sands operational. In none of these cases was the outcome even close to a certainty when large sums of money were first committed.

These examples also demonstrate the importance of research and new technology and the capital intensive nature of the business of finding and developing petroleum reserves.

Without technologies unknown 20 years ago, Imperial could not now be making its present contribution to the search for frontier oil and to the production of oil from non-conventional sources like oil sands. To be successful, a petroleum company must have access to world-wide research and new technology and must be able to mobilize large amounts of capital for innovative ventures.

This same capital intensive nature and importance of research and technology also characterize other aspects of Imperial's business in refining and marketing petroleum products and in manufacturing petrochemicals.

In fact, there are distinct advantages, altogether apart from security of supply, in combining in one enterprise the exploration and production phases with the refining and marketing phases as well as the petrochemical and ancillary lines of business. Imperial's managers, staff groups, scientists and engineers can contribute over the whole spectrum of the company's activities. Capital generated within the business can be mobilized and allocated to those activities where it can earn the highest return.

Imperial's size and financial stability enable it to borrow larger amounts at lower interest rates than corporations with less favourable ratings. A still greater advantage to the public from the large integrated Imperial enterprise is the company's ability to absorb risk. This absorbing of risk is made possible by the flow of funds from the company's overall operations. Debt holders will not absorb risk and may refuse to lend if they do not perceive financial strength in the equity participants. Imperial's financial position is strong but if internal cash flows are impaired by lower earnings or undue government levies, its ability to absorb risk and to participate in essential energy projects is reduced accordingly.

It is by conscious design that Imperial's growth has occurred in fields where it can bring to bear the breadth and depth of its expertise, namely, in petroleum and mineral related activities. In the past, these advantages have benefitted consumers through lower prices or higher quality and brought rewards to the shareholders. Into the future, Imperial's expertise, size and financial strength are of critical importance to the development of Canada's energy resources.

Continued growth in Canada's economy means a continuing increase in energy demand, and meeting Canada's petroleum requirements alone will necessitate investments of at least $35 billion by 1985 (1976 prices). Typically, the projects will be in very hostile regions. Each one will require the joint participation of several companies, and the mobilizing of capital and technology from around the world on a scale seldom if ever experienced in Canada.

Imperial's strategy for the future involves both its function as an economic entity and its place as a corporate citizen in the Canadian society. In its economic functions, Imperial will continue, alone or with others to make its contribution as long as the technical, financial and governmental outlook is favourable.

The changing goals of society have increasingly emphasized social objectives, and Imperial's record shows that it has continuously adapted to these aims. Also, Imperial's commercial success has contributed materially to their achievement. The ongoing balancing of Canada's economic and social aspirations is a complex matter. Imperial expects to play its role.

Limitations on Imperial's Economic Power

The existence and terms of reference of the Commission suggest concern about the amount and potential abuse of power in the hands of large corporations. Imperial is one of the largest Canadian corporations. The fact is, however that Imperial's economic power is constrained on all sides. Despite its size the company cannot dominate its markets or the economy as a whole.

The current restraints on Imperial's economic power come both from competition and from governmental regulation. In spite of its size, Imperial's share of any phase of the petroleum business in Canada is small and it faces Canadian competitors numbering from 16 in refining to 600 in producing. Further competition comes from foreign sources both in the form of mobile capital and product imports. Competition is effective as measured by accepted tests and the consumer has benefitted from it.

Various types of legislation already affect the petroleum business in its every aspect. The competitive market place is reinforced by laws protecting the consumer. Federal acts protect Canadian interest vis-a-vis foreign investment and directives. Other legislation specifically and comprehensively governs Imperial's operations in the interests of safety, health, conservation of resources, environmental protection and other important public interests.

Controls affecting the pricing and supply of crude, natural gas and products across the country have been introduced by both federal and provincial governments. If long continued, such controls will distort investment and supply and decrease the generation of funds needed for new energy investment.

The petroleum industry's heavy taxes are both an important source of government revenue and powerful directive tools. Overlapping and conflicting federal and provincial practices limit the producing industry's return from past investments. The cash flow needed for much more costly new energy investments is as a result diminished. Greater assurance and stability of regulation are important to investor confidence.

In summary, the petroleum industry has to be seen as already restrained by competition and controlled, if not hampered, by government regulation. The economic power perhaps thought to be in the hands of Imperial is in fact in the hands of the consumers of Canada and in the governments they elect.

Recommendations

Imperial respectfully suggests that the Commission should find:

1. That corporations in Canada have made an important contribution to the wealth and well-being of Canadian society and under appropriate conditions can be expected to continue to do so.

2. That major efficiencies are available from economies of scale in the large production unit and in the large firm which benefit both the consumer and the shareholder.

3. That Canada as a relatively small country can only benefit from economies of scale to the extent that its production units and corporate enterprises are efficient on an international scale.

4. That, based on the example and experience of Imperial, foreign controlled corporations should be able to operate in Canada in the Canadian interest.

5. That laws aimed at improving and strengthening competition should themselves be improved but with due regard to the dangers of such legislation impeding the efficiency of Canadian industry.

6. That corporate openness responding to identified societal concerns is important and should be fostered. The burgeoning workload and costs of repetitive detailed data gathering for governments without specific objectives should be limited and rationalized.

7. That government actions aimed at commendable social objectives be most carefully considered and balanced against the possibility of their reducing the wealth creating capability of Canadian industry.

8. That development of Canada's energy requirements is vital to the future health of the nation and depends on large companies like Imperial, investing their experience, technology, and capital in anticipation of a fair return.

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GROWTH OF THE ENTERPRISE

II. GROWTH OF THE ENTERPRISE

The purpose of this section is to describe how Imperial grew to its present size and scope and its contribution to the Canadian economy. Accordingly, it describes how, from its founding in London, Ontario, the company's early growth came from geographic expansion of its refining and petroleum product distribution business. Later the company grew by integrating back to raw material supply, first outside of Canada and then in Canada. The still later forward integration into petrochemicals and fabricated products is reviewed. Finally, this section outlines the purpose and current role of the company's acquisitions and subsidiaries.

The section includes comments on the company's role in the Canadian economy including its contributions to production of total goods and services and to the revenues of governments in Canada. It concludes with a description of Imperial's financial performance and its ability to participate in major new Canadian energy projects.

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Development of the Petroleum Enterprise

Imperial was formed in 1880 in London, Ontario to refine and market petroleum products and was capitalized at the then substantial amount of $500,000. At that time, there were 150 refiners in Canada, and a refiner with a dozen employees was considered large.

Initially, Imperial's operations were centred in Southwestern Ontario but within a short time the company adopted the slogan "Everywhere in Canada". By 1893 Imperial had 23 branch offices across Canada and a greatly expanded product line that included gasoline, benzene, naphtha, lubricants and greases. This extensive expansion program was intended to provide successful competition with American imports. By 1895, however, American firms had captured one third of the Canadian market for petroleum products. Unable to obtain in Canada or Great Britain the capital required to meet this competition, Imperial in 1898 reached an agreement with the Standard Oil Company whereby this American firm would supply the necessary capital in exchange for a majority interest in Imperial. From this beginning, Standard Oil's successor company, Exxon Corporation came to hold its present 69.51% interest in Imperial.

The expansion of Imperial's distribution system was later paralleled by expansion in refining to meet the increased demands resulting from the automobile and from World War I. During the War, Imperial doubled its refinery capacity by

increasing the number of its refineries from one to five, located across the country from the Pacific to the Atlantic coast. From that time on, as highway systems were greatly extended Imperial continued to expand its service station facilities and refining capacity to fuel the growth of automobile travel and commercial trucking.

With the depletion of oil reserves in Southwestern Ontario, Imperial had to rely increasingly on imported crude oil. With new equity, in 1914 it acquired the International Petroleum Company which engaged in exploration for oil in South America. In 1917, Imperial formed the Northwest Company Limited and began its long search to find oil in Western Canada. The program began in a modest way in 1919 at Czar in eastern Alberta and in 1920 this company discovered the Norman Wells oilfield in the Northwest Territories. Again with new equity, Imperial acquired Dingman Oil Co. in 1921, which became Royalite Oil Company, and so became involved in the development of new oil fields in the Turner Valley in Alberta in the 1920's and 1930's.

During the depression years, oil and gas exploration programs were discontinued, but in 1938 they were resumed in Alberta, British Columbia, Saskatchewan and the Northwest Territories. In 1945, Imperial began exploring for oil and gas in Southwestern Ontario, but its concentration on western Canadian exploration proved justified by the much larger reserves discovered there.

The most significant event in the history of western Canadian oil exploration was Imperial's discovery at Leduc, 17 miles southwest of Edmonton, where oil first flowed on February 13, 1947. The discovery was the culmination of the exploration program launched in 1919, which had involved the drilling of 133 dry holes and cost more than $23 million.

In the months that followed the discovery, further drilling by Imperial and its competitors led to the development of the rich Leduc field and the discovery of many other major fields. Even before it had determined the full extent of the Leduc reserves, Imperial bought a refinery in Whitehorse in the Yukon, and brought it 1350 miles down the Alaska Highway to Edmonton to establish in the shortest possible time refining capacity for processing the newly found oil. To transport the oil to refineries and centres of consumption, an unprecedented pipe line building program was started. Imperial played an important role in the building of the Interprovincial pipe line to link Edmonton with Sarnia, Ontario, 1,772 miles away. In a westerly direction, the Trans Mountain Pipe Line was built from Edmonton to Vancouver and the State of Washington.

The consequences of the discovery were far reaching. Canada's oil production continued to grow, displacing imports, so that within 10 years Canada supplied 70% of its own oil requirements as against only 10% in 1946. During the same

decade, the mileage of pipe lines serving western Canada increased from 400 to 5,700 miles and refinery capacity increased from 246,000 to 702,000 barrels per day. In Alberta, new roads were built, new industries were established, and millions of dollars of new oil revenues flowed to the treasury of the Province.

Following the Leduc discovery, Imperial intensified its efforts and expenditures to develop new Canadian supplies of oil and natural gas. Standard Oil of New Jersey loaned key technical manpower and undertook to train Canadians for the job ahead. To finance its exploration program, Imperial used its then considerable cash reserve of $30 million, sold the International Petroleum Company to Standard Oil of New Jersey, and also sold its interest in the Royalite Oil Company. In addition, Imperial borrowed $100 million and issued new shares of its stock to the public. Standard Oil of New Jersey continued to subscribe its full share of new equity. The company again was planning far ahead, and in the 1950's the program began to bring results as discoveries of new oilfields added significantly to Imperial's reserves.

For Imperial, the present mammoth Syncrude project began in 1955 when research and development work commenced on an oil sands lease about 25 miles northwest of Fort McMurray in northern Alberta. In 1959, Imperial entered a consortium with three other oil companies aimed at constructing a plant to extract oil from the Athabasca oil sands.

These sands contain an estimated 625 billion barrels of oil, and the 150 billion barrels which may eventually be recovered represent over 200 years' supply at Canada's current rate of consumption.

Another initiative taken by Imperial, because of its association with geology and geophysics, was exploration for other minerals. Imperial in partnership with several small mining firms found a potentially commercial deposit of columbium near James Bay in Northern Ontario and in 1973, Imperial in another joint venture discovered a significant lead and zinc deposit at Gays River, Nova Scotia. Since 1965, Imperial has spent over $25 million on mineral exploration across Canada, principally in search of base metals and uranium.

Imperial's exploration activity has continued to centre on the search for oil and gas. In the early 1960's, Imperial made a major decision to embark upon exploration in the Arctic where harsh climatic conditions impose onerous new difficulties on men and machines, and in 1964 Imperial increased its land holdings substantially, the main additions being in the Beaufort Basin. Commenting 10 years later on the decision, Mr. W. O. Twaits, formerly chief executive officer of Imperial, said:

> "Going into the north in 1964 was a real contested issue, a more difficult decision even than our partnership in Syncrude which was made some years earlier." (Esso Reporter, Vol. 10, No. 3, 1974, "Today, Tomorrow and Yesterday" by Robert Collins, p.7.)

In 1970, some success came with the discovery of oil at Atkinson Point, and Imperial and its competitors since then have found other new reserves of natural gas and some oil around the Mackenzie Delta and just offshore. Hearings are underway to decide when and if these reserves will come to market and in the meantime Imperial's exploration continues in the hostile waters of the Beaufort Sea and the Atlantic Ocean.

With less drama, Imperial's petroleum products business has continued to grow and distribute fuels and lubricants to all parts of the country. Refining and transportation technology has advanced tremendously, product quality has been steadily improved, and service stations have been built to meet the consumer's changing patterns.

This continued change and expansion has required a substantial depth of technical, managerial and financial resources. Imperial's success has depended on its willingness and ability to pioneer, to take risks and to wait long periods for a return.

Entry into Petrochemicals

Imperial's entry into petrochemical manufacturing in the 1950's was a further example of its ability to mobilize its skills, technology and capital. Supply deficiencies in many natural products in the early 1950's resulted in the rapid development of petrochemical-based solvents, plastics,

fibres and other products. Imperial developed synthetic detergents based on petroleum feedstocks and in 1957 began production of the first detergent alkylate made in Canada.

Within the next few years Imperial established petrochemical facilities at Sarnia to broaden the range of its naphtha solvents, to meet the growing demand for olefins, and to manufacture new petroleum additives. By the time it completed a large new fertilizer complex at Redwater, Alberta in 1969, Imperial had invested some $140 million in petrochemical manufacturing facilities. The initial projects were financed from Imperial's petroleum business and depended heavily on the company's own research and knowledge of hydrocarbon technology.

In the 1970's, Imperial has continued to adapt to the market for petrochemicals. It has withdrawn from certain lines where market conditions became unfavourable, and expanded its manufacturing of other products. Today Imperial's petrochemical business, operated under the name of Esso Chemical Canada, is a significant and profitable part of the Imperial enterprise, but again a long lead time was required; it was 1974 before Esso Chemical Canada produced a positive cash flow.

Acquisition of Fabricated Products Manufacturers

In relation to its experience and resources, Imperial believes that petroleum and petrochemical activities hold out the best prospects for the company to earn a favourable return. In addition, however, these activities

provide opportunities for integration and diversification into related lines of business where Imperial can contribute technical, research and managerial skills.

In 1964, at a cost of $19 million, Imperial bought the assets of Building Products Limited, a company with 1,600 employees and plants in Quebec, Ontario, Manitoba and Alberta. The new acquisition was seen in part as a move to diversify Imperial's operations but more as an outlet for petroleum and chemical products and the application of organic chemistry research and engineering within Imperial.

The firm now operates within Esso Chemical Canada under the name of Building Products of Canada Limited and maintains its traditional role of manufacturing and distributing a diversified line of building materials Canada-wide. Accounting and management systems have been integrated with Imperial and other contacts with Imperial are in areas such as research, new product development and plastic conversion where there are mutual benefits. For example, in 1974, Building Products opened a new plant in Toronto to manufacture a unique fire-resistant foam insulation.

In 1964, Imperial acquired Polybottle Limited, a Toronto firm with 110 employees which made plastic bottles for motor oils and other household and industrial use. The Imperial research staff and Polybottle subsequently developed the first shatterproof polyvinyl chloride container in Canada for food products. This company also continues within Esso Chemical Canada.

In 1967, Imperial acquired Poli-Twine Corporation Ltd. of Saskatoon, which manufactured twine and rope from polypropylene. This firm was expected to serve as an outlet for polypropylene once it was made in Canada. Following its acquisition, Poli-Twine developed a new baler twine and demand for twine and rope grew to exceed the capacity of the Saskatoon plant. Production began at a second plant in Belleville, Ontario in 1974.

The Subsidiaries of Imperial

Reflecting the fact that Imperial has grown and launched new ventures mainly from within the existing organization rather than by purchasing other firms, Imperial's operations are carried on to a very great extent under the Imperial or Esso name within the corporate entity of Imperial Oil Limited.

Appendix "A" lists the wholly-owned subsidiaries of Imperial Oil Limited, excluding inactive or dissolved companies.

Where dates that the subsidiary was "incorporated" and "acquired" are identical or virtually so, the subsidiary corporation was formed by Imperial. In some instances, Imperial has taken such a step for purely legal reasons, for example, in the case of Esso of Canada Limited to protect the Esso brand name. In other instances, companies

were chartered for specific purposes related to Imperial's operations, such as Devon Estates Limited, incorporated in Alberta to buy, sell and hold real estate, or Servacar Ltd., incorporated in Ontario to operate automotive service centres.

In a number of instances in Appendix "A", the dates of incorporation of the subsidiary company antedate by some years the date of acquisition by Imperial. The circumstances of Imperial's acquisition of three such subsidiaries were described earlier in this section, namely Building Products Limited, Polybottle Limited and Poli-Twine Corp. Ltd.

From time to time, primarily in the 1960's, Imperial also acquired a few local heating fuel distributors, such as W. H. Adam Ltd. in Quebec (1960). Depending upon consumer preferences, Imperial continued to operate some of these firms under their traditional names. In other instances, Imperial integrated the acquisitions into its existing system for heating oil distribution.

Similar strategies are evident in gasoline marketing. The "Home" and "Champlain" brands, resulting from acquisitions in the 1930's, were maintained because of their established consumer franchise. Other brands, including "Econo" and "Gain" were established to cater

to the preferences of a particular consumer segment. Servacar and ESF are corporations established by Imperial to operate such retail facilities. Consumers' tastes are constantly changing and, in the past year, both the "Champlain" and "Home" operations have been substantially integrated with those of Imperial.

Appendix "B" lists the companies in which Imperial has a minority interest in a joint enterprise. Again, companies which are inactive or which have been dissolved are omitted.

An important example of a joint venture is the Interprovincial Pipe Line Company, which was incorporated in 1949 to construct, own and operate a crude oil pipe line system. In this instance, Imperial carried a large share of the burden of ensuring the successful financing of this unprecedented $90 million Canadian pipe line venture. Imperial entered into a throughput agreement with Interprovincial, agreed to make good any default in payments by Interprovincial on its first mortgage bonds and convertible debentures, and provided a substantial share of the initial equity capital. Through a further private stock issue, corporate partners were added reducing Imperial's share to approximately 50%. Simultaneously, a large issue of convertible debentures was issued, of which 44.1% was taken up by the general public. Early in 1953, by reason of the redemption of the debentures, the public holdings were converted into stock, so that Imperial then held approximately 1/3 of the equity capital. Imperial still retains 32.8%.

Table 1

IMPERIAL'S OUTPUT OF CRUDE OIL,

NATURAL GAS, AND REFINED PETROLEUM PRODUCTS,

1954 - 1974

YEAR	PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS (Net after royalties and oil payments)	NATURAL GAS SALES	TOTAL SALES OF PETROLEUM PRODUCTS
	(Thousands of bbls. per day)	(Millions of cubic feet per day)	(Thousands of bbls. per day)
1954	85	41	218
1955	95	48	250
1956	105	57	275
1957	97	65	273
1958	77	77	268
1959	84	98	285
1960	79	118	285
1961	97	122	281
1962	108	138	301
1963	109	151	309
1964	114	166	321
1965	115	180	345
1966	127	239	352
1967	141	301	366
1968	150	336	378
1969	154	350	381
1970	170	372	400
1971	183	397	406
1972	224	425	417
1973	275	480	449
1974	224	421	443

Imperial also retains an 8.6% interest in Trans Mountain Pipe Line Company Ltd. as the result of joining with five other major oil companies in financing this $94 million, 718-mile pipe line. Other pipe line joint ventures include Rainbow Pipe Line Company Ltd. in Alberta in which Imperial has a 33.3% interest, and Montreal Pipe Line Company Limited in Quebec (32.0%), which together with a wholly owned American affiliate operates the oil pipe line from Portland, Maine to Montreal.

In Southwestern Ontario, Imperial and the Consumers' Gas Co. jointly operate underground gas storage, each company owning 50.0% of the stock of Tecumseh Gas Storage Limited.

Role in the Canadian Economy

Imperial is a large company by international standards and in Canada it is one of the very largest. With operating revenues of $3,645 million in 1974, it ranked second in sales, second in terms of net income ($289 million) and fifth in total assets ($2,701 million). Table 1 shows how Imperial's output of crude petroleum, natural gas, and refined petroleum products has grown between 1954 and 1974. Net production of crude oil and natural gas liquids has nearly trebled. Sales of natural gas have multiplied more than ten-fold. Total sales of petroleum products have more than doubled.

Financial Performance

As a big company in a capital intensive business, Imperial has to have substantial earnings to pay the cost of the capital it employs. Table 2 shows the record of earnings

Table 2

SELECTED FINANCIAL DATA FOR IMPERIAL, 1954 - 1974

YEAR	EARNINGS ($Millions)	CAPITAL EMPLOYED ($Millions)	EARNINGS AS % OF CAPITAL EMPLOYED	DIVIDENDS ($Millions)	DIVIDENDS AS % OF EARNINGS	TOTAL CAPITAL AND EXPLORATION EXPENDITURES ($Millions)
1954	51	527	10.2	27	53	104
1955	63	617	11.4	28	44	109
1956	69	728	10.6	36	52	134
1957	75	771	10.3	38	51	144
1958	54	787	7.2	38	70	98
1959	56	803	7.2	38	68	92
1960	62	823	7.7	43	69	90
1961	65	852	7.9	44	68	87
1962	68	871	8.0	44	65	76
1963	71	898	8.1	49	69	80
1964	78	927	8.7	55	70	100
1965	84	960	9.0	59	70	116
1966	92	999	9.5	63	69	140
1967	97	1101	9.5	67	69	165
1968	98	1181	8.9	67	69	188
1969	93	1280	8.0	68	72	134
1970	106	1319	8.7	68	64	122
1971	139	1392	10.7	77	56	161
1972	151	1557	10.8	77	51	259
1973	225	1750	14.1	104	46	333
1974	289	2056	15.6	104	36	404

and capital employed from 1954 through 1974. Through the 1960's, earnings were below 10% of capital employed. More recently, the rate of return has tended to increase, reaching a high point of 15.6% in 1974, because investments made years ago have only recently begun to pay off. From Statistics Canada reports, the return on capital employed for total manufacturing has followed a generally similar upward course in recent years, reaching a high point in 1974 of just under 12%. During a time of inflation and rising prices, all rates of return in current dollars appear artificially high when expressed as a percentage of historic costs of capital.

From Table 2 it is also apparent that in the past 20 years Imperial has only once paid out more than 70% of its earnings in dividends, and that by 1974 the dividend payout had fallen to 36% of earnings.

It is sometimes argued that the dividend payout by Canadian companies to American parent companies constitutes an excessive drain upon the Canadian economy. In 1974, Imperial paid approximately $72 million in dividends to Exxon Corporation and a further $9 million to other foreign shareholders. After federal withholding tax of 10%, Imperial's net foreign dividend payment of $73 million is only 11% of the foreign interest payments of the Ontario and Quebec governments and their electric utility companies.

Table 3

IMPERIAL: TAXES CHARGED AGAINST INCOME

CROWN ROYALTIES 1954 - 1974

($ Millions)

YEAR	TOTAL TAXES CHARGED AGAINST INCOME	CROWN ROYALTIES	TOTAL
1954	66	10	76
1955	77	11	88
1956	89	12	101
1957	89	11	100
1958	68	5	73
1959	85	6	91
1960	92	5	97
1961	96	8	104
1962	92	12	104
1963	89	13	102
1964	98	13	111
1965	108	14	122
1966	116	15	131
1967	129	17	146
1968	132	19	151
1969	135	21	156
1970	146	26	172
1971	174	29	203
1972	178	37	215
1973	252	81	333
1974	376	251	627

Finally, Table 2 shows the steep climb in capital and exploration expenditures in recent year to the unprecedented level of $404 million in 1974. Such investments are funded from internal and external cash flows, but it is significant that, in every year since 1954, Imperial has invested well over 100% of its earnings in capital and exploration expenditures for new projects and for the expansion of its existing business in Canada.

Imperial's Payment to Governments

Again because of some critical comments, Imperial's taxes and other payments to the different governments of Canada are a subject of particular interest. Table 3 shows the taxes which Imperial has charged against income in the period from 1954 to 1974 as well as crown royalties paid. Even within the past 10 years, total taxes charged against income have more than trebled and taxes plus crown royalties together have increased five-fold. Comparison to Table 2 will show that taxes exceeded earnings every year from 1954 through 1974.

Of the $376 million of taxes which Imperial charged against income in 1974, $267 million was income taxes, of which an estimated $55 million went to provincial and municipal governments. In addition to income taxes, Imperial paid federal sales tax in 1974 totalling $81 million. Property and other taxes totalling a further $28 million were paid almost entirely to provinces and municipalities.

In addition to taxes charged against Imperial's income, the company collected on behalf of governments in 1974 a further $569 million, principally in the form of the federal crude oil export tax and provincial road taxes.

Crown royalties and other similar payments, borne directly by Imperial, totalled $251 million in 1974 of which $227 million, were paid for royalties on crown leases in Alberta. The importance of Imperial as a source of tax revenues to governments in Canada is evident from the fact that the company in 1974 contributed 2.88% of the total corporate income taxes paid in Canada and 0.99% of net government revenue, which includes all revenue from taxes and other sources received by federal, provincial and municipal governments.

The New Super Projects

So far this section has described the dynamic growth of Imperial, its economic contribution, and the strong financial performance of the company. The new projects which are today the focus of Imperial's future planning are still in the field of Imperial's basic petroleum energy business, but many of them require such large amounts of capital and risk-taking that no one company is in a position to undertake them alone.

One of these new endeavours is the proposal to build a natural gas pipeline from the Mackenzie Delta to the central prairies. Imperial is a member of a consortium

of some 16 Canadian and American companies, some producers of oil or gas and some not, known as Canadian Arctic Gas Pipeline Limited; which has applied to build a 48 inch pipe line 1,630 miles southward from the Mackenzie Delta. To the end of 1975 approximately $100 million had been spent, and the total capital cost is estimated to be some $8 billion before start-up in 1981.

A related endeavour is Beaufort-Delta Oil Project Limited which was incorporated in 1974 and is owned equally by Shell, Gulf, Interprovincial Pipe Line, Trans Mountain Pipe Line and Imperial. This company has been charged with preparing all the required feasibility studies for a crude oil pipeline from the Mackenzie Delta to Alberta in the event that adequate crude oil reserves are proven. This line too will cost several billion dollars and at best it will be 1985 before it is in place.

Imperial also is a major participant in Syncrude Canada Ltd., which was incorporated in 1964, and the company now holds the largest single interest, 31.25%. While formal agreements have yet to be signed, Canada-Cities Service Ltd., Gulf Oil Canada Limited, and the governments of Canada, Alberta and Ontario will all also hold shares. The Syncrude plant is designed to produce 125,000 barrels per day, or about 7% of Canada's current demand when the construction program is completed in 1978 and will cost over $2 billion, more than the capital employed by Imperial in total in 1974.

Clearly these projects dwarf what in the past were considered heavy commitments by Imperial to such ventures as oil exploration in western Canada and the Interprovincial Pipe Line. The demands for organization and management are immense, but as well, are a stimulating challenge. In response to these demands, Imperial has provided senior executive personnel to all of these projects. Internally, the New Energy Resources Department was formed in 1974 to co-ordinate Imperial's relations with Syncrude as well as to pursue research into heavy oil recovery and to evaluate the company's coal reserves. An Arctic Pipelines Co-ordinator is responsible for Imperial's stake in those projects, and many other departments are contributing in their own field.

In the decade ahead, Canada as a whole will be challenged by the unprecedented cost and heavy risks involved in developing new energy supplies. Imperial has the capability to play a major part and is anxious to get on with the job.

Conclusions

- Throughout Imperial's history, growth has resulted from vertical integration within the petroleum industry or closely associated fields and essentially from within.

- From its origins as a refining/distributing company, Imperial first expanded as a distributing organization across Canada to meet rapidly growing markets in the late 1800's.

- During and immediately after World War I, integration back to supply sources began and new refineries were built. Exploration was started in western Canada. This general pattern continued through World War II.

- With the discovery of Leduc in 1947, the company, the oil industry and western Canada entered a new growth era.

- Imperial's further expansion in the 1950's and 1960's took the form of forward integration into petrochemicals and associated fabricated products.

- Because of its size and scope Imperial is an important part of the Canadian economy.

- Imperial by itself contributes 0.72% of the total goods and services produced in Canada, and produces 10% of all Canada's energy fuels.

- Imperial pays taxes in excess of its earnings and in total provides almost 1% of the total revenues of all governments in Canada.

- Imperial's return on capital employed has increased in recent years due to long delayed payoffs on some investments and inflation. Still it is very comparable to the return of Canadian industry as a whole.

- In recent years Imperial's dividend payout has fallen off relative to earnings while capital and exploration expenditures have continued to climb.

- In spite of Imperial's size, the capital investment required for some major new energy projects important to Canada is so great that it can only be undertaken by spreading the risk among several parties.

- Imperial is prepared to continue to play its part either individually or with others in the development of Canada's energy supplies.

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THE MANAGEMENT OF IMPERIAL

III. THE MANAGEMENT OF IMPERIAL

The purpose of this section is to describe how decisions are made within Imperial. The quality and nature of those decisions are directly related to the capability and motivation of Imperial's people and the ways in which they relate to each other. Accordingly, this section discusses both the selection and training of individuals and the organization of the company emphasizing those factors which have influenced it. It describes the planning process which is key to the success of a company which makes large capital investments and concludes by examining the relationship of Imperial to Exxon Corporation.

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The Development of People

Imperial like any other corporation is an amalgam of people, capital and technology. The role of capital as the basic raw material with which a corporation works and the way in which it is generated internally from profits or attracted to the corporation from external sources is discussed in other sections of this brief. Similarly the role of technology is dealt with elsewhere. This section looks at Imperial's management, their present character and capability, and the ways in which they are recruited and developed.

As a large complex business, with close to a century of experience in the petroleum industry, Imperial has an excellent stock of capable, energetic and highly motivated people in its ranks. Because it is technically oriented and capital intensive its 4,300 management, professional and technical people are about 37% of its total manpower. Within that management, professional and technical group about 55% have university or other post secondary educational qualifications. About 15% have post graduate degrees, and in all some 80 separate disciplines or fields of training are represented. For all practical purposes the management, professional group are Canadian citizens, educated in Canada but having easy access to international knowledge. Even with this substantial base, the recruitment, development and replacement process is a continuing challenge and a primary part of every Imperial manager's job.

The process begins with an examination of the evolving nature of the business. Based on that forward fore-

cast of the business requirement the recruitment and development programs are structured. Recruitment occurs both "off campus" and "on campus" in a planned corporate program where people, their qualifications and experience are matched to the expected needs of the firm. Once a part of Imperial, each supervisory or management candidate is integrated into a formal personnel evaluation and development program. Each individual's performance and potential is appraised annually. Development training is programmed as required. This includes training courses conducted both inside and outside the company and job rotation. Particular attention is paid to both those above and below the norm.

For high potential people, the development process is continuous. It is a managed system, placing the key people in key jobs to widen their responsibilities and experience and to test their capabilities to learn, adapt and lead. A typical career path will include several departments in Imperial and a mixture of field, head office, line and staff jobs. Further opportunities are available in Exxon's worldwide operations where, at any particular time, Imperial has 50 to 75 people broadening their experience and knowledge for return to Canada.

Development plans also stress the increased involvement of businessmen in a broader society. Formal courses are part of this process and more and more managers are representing Imperial before civic, public or government groups. The developing manager participates as citizen in his community and is acutely conscious of the evolving role of different sectors of society around him.

Out of this process comes a supply of managers who have gained professional knowledge in different aspects of the company's business and who have been tested in many different ways. Their motivation results from both material and psychological rewards because the company is large enough and diverse enough to provide jobs that satisfy individual talents and desires. Such men and women remain vital and involved because they know Imperial's ways and they know their job is important. Imperial managers become themselves the essence of what Imperial is.

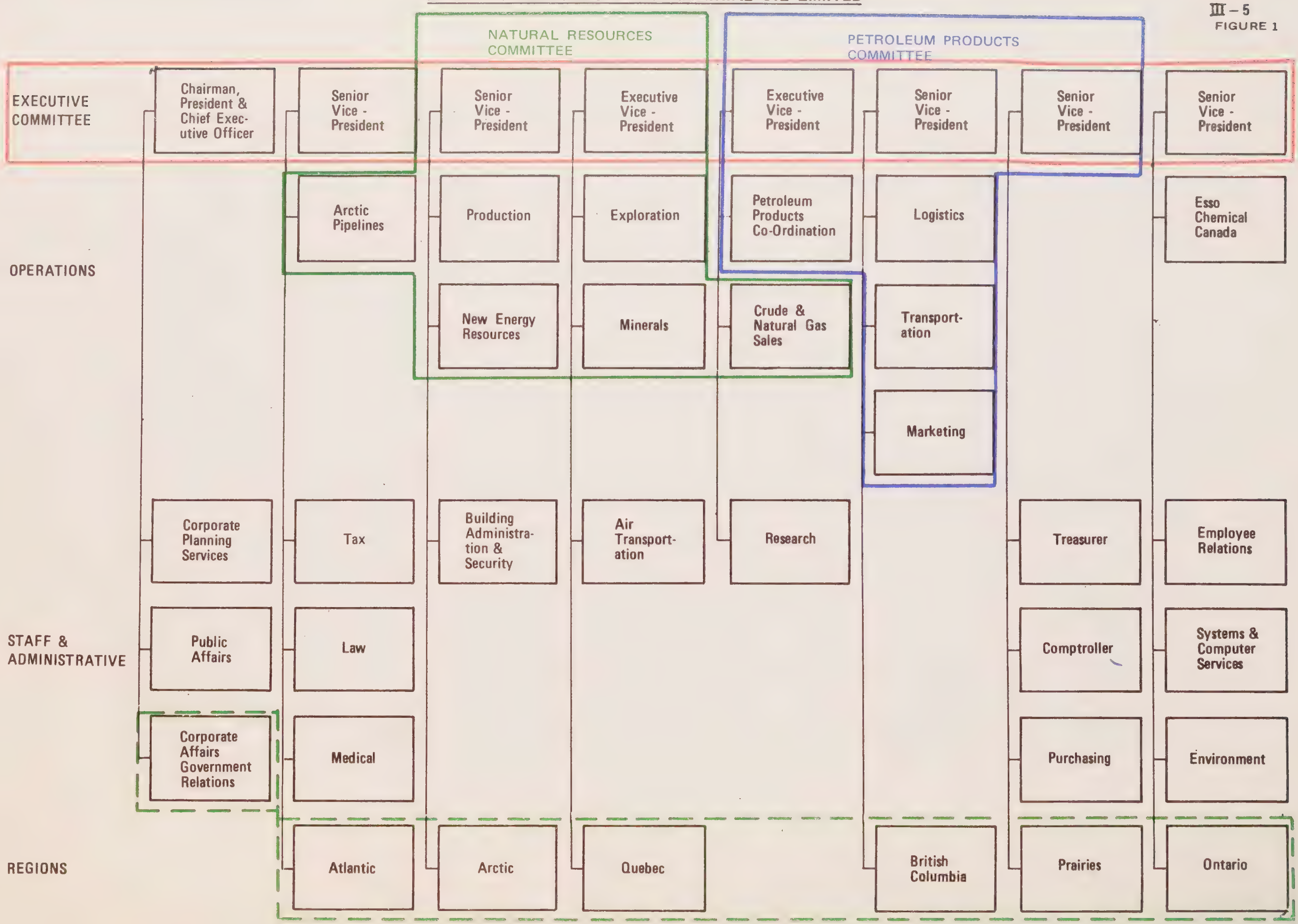
The Organization and Decision Making Concept

The general thesis behind the structure of Imperial and its decision making is that specialization appropriately coordinated is the most efficient way for the company to achieve its objectives. Accordingly the company encompasses many departments and divisions. Decisions are expected to be made within each unit to the extent possible. Where decisions impinge on other specialized units the department or division is expected to recognize that relationship and take whatever coordinating initiatives are required. In areas where continuing interrelationships occur, management committees exist to meet this coordination need. The most senior of these is, of course, the Executive Committee of the Board.

Figure 1 shows the number of distinct entities which exist and which provide the optimum opportunity to develop specialized expertise. It also shows how these departments are grouped into profit centres which conduct their business and are judged on market determined buying and selling prices. Such profit centres facilitate planning, implementation and accountability.

FIGURE 1

INTER-RELATIONSHIPS WITHIN IMPERIAL OIL LIMITED



Each has hundreds of employees, spends millions of dollars each year, and in most respects is a business in itself.

The numerous support groups shown in Figure 1 further reflect the company's specialization and indicate the extent to which Imperial by reason of its size is essentially self-sufficient. Departments such as Comptroller's and Purchasing provide a service to all other parts of the company. Groups such as Law and Tax develop a unique expertise for the use of all other departments. Departments such as Treasurer's, Corporate Planning Services and Corporate Affairs are concerned with company issues that cross all functional lines.

Because of the significance of Canada's provinces or regions the linkage of specialized operating functions at a regional level is also important. This dimension is provided by Corporate Managers who have a responsibility for representing the company in all its functions to their communities and for bringing to the company's decisions, knowledge of the attitudes and trends of each particular region. They are not line operating managers but they work through a committee of operating managers in their region.

Within this diversified structure, the need to balance operating, staff and regional viewpoints is apparent. Ultimate responsibility for this direction, of course, rests with Imperial's Board of Directors. The company's directors are all Canadian citizens who are full time employees. All are members of the Executive Committee of the Board and of the Compensation and Organization Committee of the Board.

Managers of operating departments, support departments, and regional corporate managers all report to a member of the Executive Committee. As a result, a member is likely to have executive responsibility for one or more operating departments, one or more staff or service departments and a region. It is in this forum where the major and strategic decisions with regard to both people and money receive their final appraisal. The interest of the operating departments, the advice of staff specialists and the input of regional attitudes are combined and balanced. A proposal may require amending, or more analysis or more outside consultation. But in the end a consensus arises often from among divergent views and the matter proceeds to implementation.

Authority for policy changes that impact on the company as a whole or that have major interdepartmental implications is, of course, concentrated in the Executive Committee but there is equal emphasis on ensuring that to the maximum extent possible authority and responsibility is left to the managers of the operating or staff departments. Further, wherever possible authority is delegated within departments to those in charge of field operating units. For instance, appropriations from approved capital budgets are within field manager authority up to $150,000 and, again in the context of an accepted operating plan, field managers have no limits on their expense authority. Both operating effectiveness and management development benefit from such decentralization. Field managers are encouraged to make the decision on the spot and so show their ability to carry responsibility.

Apart from subsidiaries or affiliates where Imperial

has an investment interest, only one Imperial director serves on another board of directors. This is because of the possibility of being in a conflict relationship with a customer or supplier of Imperial. Mr. J. A. Armstrong, President and Chief Executive Officer and Chairman of the Board of Imperial, is a director of the Royal Bank of Canada. This association has a functional value for Imperial in that it contributes to the company's understanding of the current and forecast state of financial markets.

In summary, Imperial's organization reflects coordinated specialization. Overall, the capability is such that the organization has relatively little need to call on outside expertise although there is no hesitation to do so as required. A pattern of encouraging initiative and making balanced decisions has evolved, based fundamentally on management's confidence in and experience with each other.

The Planning Process

Although planning is a virtually continuous process in the company, it is formalized twice a year. This twice yearly formal review brings to the Executive Committee a range of views on the socio-economic environment, the major strategies and investments foreseen, and implications on the capital structure of the company for several years ahead. Included in some detail is a financial forecast far enough into the future to recognize the long lead times inherent in most of the company's investments (5 - 10 years and sometimes longer).

From these reviews there emerges a range of strategies for the years ahead. Particular emphasis is placed on the capital investment decisions which will determine the future shape of the company, the number, nature and location of its employees, its technical needs, its operating programs and its cash flow and financing requirements.

The process is essentially a circular one reflecting previous reviews and management strategic direction. The re-examination, however, begins at the departmental level where a grass roots search for new opportunities is incorporated. There is a continuing emphasis in the process on the search and evaluation of new ideas. As departmental plans are developed they are first reviewed with their "profit centre" management group, then with the Executive Committee both in departmental form and as a consolidated whole. Alternative assumptions or courses of action are tested and their impact on the whole developed. The staff departments play an important role in this evaluation process. Finally, an agreed plan with appropriate checkpoints is put in place. The short term portion of this is a control tool which is regularly reviewed and updated to reflect changing circumstances. The longer term is revised as the formal planning cycle is again begun.

The process of establishing these forward plans illustrates how the Imperial organization works. The entrepreneurial ideas emerge and flow both upwards in the organization from involved people in an operating environment and downwards from the examination of the strategic alternatives available to the corporation.

When within this process the concept of a new project or major investment first comes forward, it is assessed at the departmental level. If it has interdepartmental implications the appropriate committee of operating departments then assesses it in relationship to available resources within the profit centre. Staff groups assess key variables in the external world and attempt to define critical checkpoints along the proposed development path. Finally, the project appears in the planning document, and the Executive Committee has its chance for review and appraisal. As a result, it may proceed into further stages of design and development, be deferred until technical, financial or internal factors are more favourable, or be discarded. Whatever the result, many levels and skills in the organization have participated in the process.

The Exxon Relationship

In general Exxon exercises the degree of interest in Imperial's affairs which might be expected of any prudent majority shareholder, but it is very sensitive to the widely held opinion in Canada that Canadian companies should shape their own destinies. The company's directors are Canadians and there is a substantial Canadian minority shareholder interest. Both companies recognize that Canadians must manage and be responsible for Imperial's operations.

In most matters Imperial acts independently. For instance, it makes its own judgments on what market prices

should be. There is no Exxon scrutiny of any external contracts. Dividend policies are established without consulting Exxon and the company makes its own financing decisions. Imperial can and has acted responsively to Canadian law and Canadian wishes even when these are potentially in conflict with U.S. law and interests. There are no management fees or other management transfer charges.

A more detailed examination of some of the usual areas of multinational criticism may be useful. The organization of Exxon Corporation has many of the characteristics also found in Imperial with specialized operating functions and staff and service departments. The Exxon Management Committee (equivalent to Imperial's Executive Committee) has a member particularly concerned with Canada, its social and economic trends and Imperial's situation. The differences between the two organizations, however, are very real. In Imperial operating authority rests in the functional specialized department with coordination achieved through structured committees. This specialized functional relationship does not extend to the linkages between Imperial and Exxon. While there are specialist departments in Exxon their function is advisory and their role is to provide an exchange of experience between Imperial and other affiliates. Imperial's management at all levels while using that knowledge clearly sees itself as responsible to Imperial's Executive Committee and its Chief Executive, not to a functional counterpart in Exxon Corporation. Imperial is not in any sense "truncated". Because of its size and maturity it has fully developed staff departments in all areas.

At the Executive Committee level there is a formal meeting with Exxon Management Committee twice yearly. One of these meetings is to review the operating and financial results, to preview operating plans for the year ahead and to discuss planned capital spending programs. The other is to review Imperial's major organizational plans and to discuss the management development of its most senior people. Because Exxon has a majority shareholder position it is, of course, in a position to elect Imperial's directors and through them to select the company's officers.

Imperial particularly benefits from its relationship with Exxon in technical matters. Imperial obtains from the Exxon group the benefits of its research and pays a nominal amount for it according to a formula. In turn, Imperial carries out a very substantial research effort in Canada, contributing at the same fee rate its research results to the world-wide Exxon group. Imperial, for example, does all basic research into lubricating oil technology for the Exxon organization. Imperial's experience with Syncrude will provide it with technical expertise that may be of value to its international affiliates in Exxon. All affiliates of Exxon thus obtain the benefits of world-wide specialization in research, including results of research programs that would be too costly for Imperial or other affiliates to undertake alone.

Some of Imperial's further benefits from its relationship with Exxon are important enough to repeat. In 1898 Standard Oil provided the capital that enabled Imperial to survive and grow as a force in the Canadian economy. On many later occasions

including Imperial's last increase in equity shares in 1955, Standard Oil of New Jersey again put new capital into Imperial. Standard Oil of New Jersey's contribution to Imperial's expertise was critical following the Leduc discovery. Exxon's ongoing role in widening the experience and capabilities of Imperial personnel has been of immense value.

On certain issues, the opinion of Imperial has differed from that of Exxon. One example is the oil sands. When Imperial first became interested Exxon considered that the oil sands would not be required in the foreseeable future. Imperial, however, was anxious to become involved in oil sands research and development and in the end, Exxon agreed to accept Imperial's view.

In the past Imperial has found it advantageous to deal with Exxon to assure secure and adequate supplies of imported crude oil for its eastern Canadian refineries. Using its market knowledge it negotiates the best deal it can with Exxon, as it would with any other supplier. Imperial has obtained limited crude oil supplies outside the Exxon group, and Imperial routinely sells crude oil, petroleum products and chemicals in foreign markets. Imperial is mindful of the substantial advantages in times of emergency of having a long-standing relationship with a large supplier with world-wide connections. In part because of its freedom to reject Exxon terms, Imperial has been satisfied with its commercial arrangements in buying crude oil on a regular basis from Exxon.

Conclusions

- Imperial through its size, diversity and maturity has available or is able to recruit a substantial pool of competent people.

- As a result of careful identification and development programs the company has been able to develop management to match an evolving operational need. Specialist and general management replacements at all levels have been routinely developed from within.

- Decision making is based upon specialist knowledge with a carefully structured coordination process. The most senior coordinating group is the Executive Committee of the Board all of whom are Canadian and full time employees.

- Decision making is also carefully structured to provide direction at more senior and corporate management levels.

- The planning process is carefully structured to provide for both early identification of new opportunities at the operating level and strategic input at the most senior levels.

- Particular planning attention is paid to providing for careful corporate appraisal of major investments.

- Imperial's management decisions are largely independent of Exxon. Periodic formal reviews with Exxon's Management Committee are made by Imperial's Executive Committee.

- Coordination of knowledge and an exchange of affiliate experiences is provided for by specialist groups within Exxon.

- There is an historic understanding by Exxon that Imperial's goals and actions must be aligned to Canadian goals.

- The presence of Canadian shareholders, a tradition of Canadian directors, a Canadian management, a fully developed Canadian staff and technical expertise, a heavy current and risky investment program, massive existing investments in Canada and almost a century of operating in Canada should provide assurance to Canadians that Imperial's decisions are made in Canada in the Canadian national interest.

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IMPLICATIONS OF THE LARGE
ENTERPRISE

IV. IMPLICATIONS OF THE LARGE ENTERPRISE

This section explores the ways in which scale relates to efficiency and capability and shows how Imperial's large size enables it to make a more effective contribution to the Canadian economy.

Examples are first cited of economies of large scale operation in different stages of Imperial's petroleum business, including refining and transportation, and in the production of petrochemicals. Where the size of the Canadian market permits the building of optimum scale plants, Imperial has constructed plants that achieve economies of large scale production. Resultant lower costs of operation enhance the Canadian industry's ability to compete with imports and, in competitive markets, benefit the Canadian consumer through lower prices.

Secondly, this section explains the ways in which Imperial, as a large firm, can cope with large and complex undertakings in a more economic and effective manner than it could if it were a smaller firm. These advantages are described with respect to research and development, management and centralized services, and mobilization of capital for important projects such as Syncrude.

Finally, the section comments on the fact that Imperial's growth as a vertically integrated enterprise has enabled it to achieve the size necessary for a firm that must tackle massive energy development projects.

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Economies of Scale of Plant

As a large enterprise, Imperial has a particular ability to construct plants of optimum size that will realize economies of large scale production. In almost every stage of the petroleum business, there are significant economies in the building and operation of large scale facilities, and several examples follow.

In crude oil and natural gas production, an example of the economies of a large relative to a small plant is found in the plant that desulphurizes and extracts the liquids from natural gas. The nature of these plants varies widely because of the different characteristics of raw gas and the volumes available to each plant. However, for similar processing requirements, the capital cost per unit of capacity decreases markedly as the capacity increases. Unit investment in a plant to process 300 million cubic feet per day would be only about half of that in a plant of 30 million cubic feet per day.

Another and very important example relating to crude and natural gas production is apparent in frontier areas such as the Beaufort Sea. Below a certain level of reserve and at a given price level, a pool of gas or oil is simply not large enough for costs to be recovered. Because more remote areas involve both higher transportation costs and more onerous operating conditions, the threshold for economic development becomes progressively higher and the minimum size of commercial reserve larger.

In petroleum refining, experience shows significant economies from a large scale plant in both capital and operating costs. In current dollars, the investment declines from about $4,200 per barrel per day for a 50,000 barrel per day plant to $3,200 for a 100,000 barrel plant and to $3,000 for a 140,000 barrel per day plant. Similarly, the operating cost (exclusive of cost of crude oil) decreases from about $2.90 per barrel of light products for the 50,000 barrel plant to $2.50 for a 100,000 barrel plant and $2.40 for a 140,000 barrels per day plant.

Because of such economies of scale in petroleum refining, plants have tended to increase in size and some smaller plants have been closed. In 1974 there were 40 refineries in Canada, of which Imperial owned 9 representing a combined crude capacity of 479,000 barrels per calendar day or 24.7% of the total Canadian capacity. Imperial's Strathcona refinery at Edmonton was completed in 1975 with a capacity of 140,000 barrels per day, and existing small refineries at Edmonton, Calgary, Regina and Winnipeg were then phased out. The economies of constructing and operating such a refinery rather than modernizing and expanding four other refineries justified this expenditure of almost $300 million.

Marine transportation shows further examples of scale economies. From the Persian Gulf to Halifax in a tanker with a capacity over 160,000 deadweight tons, the current rate is about $1.20 per barrel of crude oil. In a ship the size of the "Imperial Ottawa", or between 80,000 and 120,000 tons, the rate increases to $1.40. But in a vessel of only 34,000 to 45,000 tons, the rate rises to

$2.50 per barrel.

In petrochemical production, numerous examples of scale economies can be cited. In ethylene production, for example, a current investment would be about 45¢ per pound in a plant with a capacity of 500 million pounds per year as against 36¢ for a plant of 1 billion pounds capacity.

Under competitive market conditions, economies of scale of plant tend to be passed on to the consumer in the form of lower prices. In contrast to the Canadian market for petroleum products, the relatively small size of the domestic market for chemicals has often limited Canadian chemical plants to something less than the optimum scale. Against strong import competition the Canadian chemical industry has been at a disadvantage from larger plants and some of its smaller plants have gone out of business.

Two of Imperial's chemical plants, one built in 1967 to produce methanol at Montreal and the other built in 1965 to produce acrylonitrile at Sarnia were subsequently shut down. Both plants were typical of the capacity of such units built elsewhere at the same time, but rapid progress in technology increased sharply the capacity of each new plant subsequently built. This pressure has halted at least temporarily because of the high cost of building new plants. Certain existing Esso Chemical plants are thus still economic, "saved by inflation."

Imperial over a period of time has expanded the capacity of its existing refineries, and all other facilities where possible, to take advantage of new technology and growing market opportunities. Lower product costs that arise from the building of larger scale facilities make possible more effective competition against imports, as improve the ability to export and provide lower prices for the Canadian consumer.

Economies of Scale of Firm

In addition to these economies of scale of plant, Imperial can realize certain economies by reason of the large scale of the firm. Although a modern optimum size plant can theoretically be built by a firm just sufficiently large to finance and operate it, such a project will be far more easily accomplished by a large company than by a small company. The technological skills and capital resources of the large firm give it a pronounced advantage, and in extreme cases, only the very largest companies can undertake a project at all.

The Strathcona project is a good example of Imperial's ability to bring scarce resources to bear on a large undertaking. Because it now has five principal refineries, Imperial has staff experts in each phase of refining operations, for example, distillation, catalytic cracking, powerforming, instrumentation, computer control and environmental protection. Under active development from 1964, the Strathcona project was appropriated in 1971 and went on stream in 1975. Throughout this period, this pool of experts was available and was involved in the design and

construction. Imperial was also able to staff the new refinery with experienced employees drawn from its other refining operations. With this combination of strengths, the start-up of Strathcona was smooth and on schedule. Imperial now has in operation in many respects the best refinery that modern technology can provide.

Examples of economies that result from size of firm rather than from size of plant can also be found in such areas as research and development, management, centralized services and finance. As with economies of scale of plant, the lower average costs of production that result from economies of scale of firm will tend to be passed on to consumers in lower prices in markets that are effectively competitive.

Research and Development

Research and development usually raise costs in the short run rather than lower them. It is necessary, therefore, to look well ahead to the time when these expenditures may bear fruit in the form of improved technology, more efficient production and better products. If a research program is successful, then it will lower the average cost per unit of output of like quality. Economies of research and development emanate from large rather than from small firms because the large firm can hire the technical staff, bear the cost of a program large enough for good prospects of success, and carry for the necessary period the risk of a low or negative return. The larger the

firm, the greater is the range of progressively larger projects it can tackle. Or, if the size of research project required is too great for any single firm in the industry, as is happening with increasing frequency in the energy field, the largest firms will have the most to contribute to joint ventures organized for the purpose.

As a large firm, Imperial can support research activity into alternative methods for recovering heavy oil. To the end of 1975 the company incurred net spending of $43 million for research centred at Cold Lake, Alberta, to develop methods of economic recovery of heavy oils not recoverable by conventional methods. Imperial began this work in 1962 when market conditions were much less favourable for the *in situ* recovery of oil from tar sands.

In addition, Imperial has undertaken varied research projects designed to solve problems in exploration and production of oil in severe Arctic conditions, some of it in partnership with other participants. Imperial has experimented with construction of drilling islands in Arctic waters; when such an island costs between $5 million and $10 million exclusive of drilling costs, not many companies can afford the heavy cost of offshore exploration research for petroleum supplies in the Arctic.

Imperial prefers to develop its own technology whenever it is practical and economic to do so, in expectation that the resulting technology will be available at lower cost, at the time needed, and in a form tailored

to Imperial's requirements. Research into particular petroleum products Imperial can usually undertake itself. Developing a major new petroleum process, however, is extremely costly and time-consuming, and in such projects Imperial has found it advantageous to work through its technical exchange agreements with Exxon.

In one of the largest research efforts by any Canadian corporation, Imperial performed and purchased about $22 million worth of research in 1974, of which about 75% was spent in Canada. However, for this expenditure Imperial obtained full access to Exxon's annual $250 million effort, including research, engineering and laboratory technical service. Surely, an outstanding arrangement for Canada.

Management and Centralized Services

Because of its large size, Imperial has a particular ability to attract, develop and retain the best management and professional talent available. Also, the Exxon relationship has provided Imperial temporarily with manpower having special skills not otherwise available to participate in such unusual large projects as the Mackenzie Valley pipe line, Cold Lake and Syncrude.

Imperial's direct contributions of manpower to Syncrude have been substantial, including personnel for chairman of the board, executive vice-president, and vice-presidents of projects, of operations, and of administration. A smaller company could not have contributed comparably to such "instant management", or as readily filled in the resulting gaps in its own managerial ranks.

Imperial's large size enables the company to obtain some economies from central staff departments which would have had to be duplicated at higher aggregate cost if Imperial had evolved as several firms instead of as one. Such departments as law, tax, treasurer, corporate planning services, corporate affairs, public affairs, systems and computer services, medical and employee relations fall into this category.

Imperial also realizes economies through having its own engineering division, and purchasing system. Purchases of standard materials through this system in 1974 totalled $231 million for an estimated cost saving of the order of 10%.

Finance and Allocation of Capital

Finance is one area in which some economies of large scale of the firm can be realized, but the exact nature and limits of such economies should be understood. Imperial's credit rating by Canadian Bond Rating Service is the highest possible and this rating enables it to borrow larger amounts and at lower interest rates than corporations with less favourable ratings.

Imperial does not need, and does not have, special advantages through special relationships with financial institutions. The company has no advantages in borrowing because of Mr. Armstrong's membership on the board of the Royal Bank of Canada or because of any less formal relationships that Imperial's directors and officers may have with

the banking or financial community. While Imperial has dealt primarily with the Royal Bank for many years, the company in future may require more than one principal banker and would make such moves if they were deemed advantageous.

To the extent that Imperial can borrow or issue bonds or debentures at an advantageous interest rate, it can keep its costs of debt service low. Like any other economies, lower interest rates tend to improve profits for the shareholders and to benefit customers through lower prices or better quality.

The greatest advantage to the public arising in the financial area from the large, integrated Imperial enterprise is not, however, its ability to borrow cheaply. Rather, it is the company's ability to absorb risks that are beyond the capability of smaller firms. This absorbing of risk is only made possible by the flow of funds generated by the company's operations. If these flows are impaired by lower earnings, or undue government levies, Imperial's ability to absorb risk and to participate in essential energy development is reduced accordingly.

The functions of financial support and risk-sharing are quite distinct and Judith Maxwell of the C. D. Howe Research Institute stresses this point in a recent study of the Syncrude project in which she evaluates Imperial's contribution. (HRI Observations, No. 10, November 1975, "Developing New Energy Sources: The Syncrude Case" by Judith Maxwell.) She points out that while a loan in any form, whether bank

loan, bonds or debentures, will provide money to such a project, it will not absorb risk. For example, lenders may refuse to lend if they do not believe that the equity participants have enough financial strength to keep the project going. Mrs. Maxwell asserts that, because of the project's vast size, Syncrude involves a new dimension in risk-taking that is beyond the capacity of any single large Canadian corporation. She compares Imperial's 1974 total revenues of $3.7 billion with its major commitment to Syncrude of $625 million and concludes, "If the company is going to maintain a balanced portfolio of risks, it could not expose its shareholders to much more than 30 percent of this $2 billion project". (page 14)

Between 1954 and 1974 Imperial's capital employed increased by $1,529 million. Of this increase, 78% was generated from internal sources. It is extremely important that Imperial, or any major firm in the oil industry, should have a strong cash flow to maintain investors' confidence and provide a reasonable dividend. The oil industry is a high risk, capital intensive industry and Imperial expects to require immense sums of money to develop future energy supplies. Under such circumstances, the bond market will not buy Imperial's bonds unless the company has a strong equity base and cash flow.

During 1974 and 1975, Imperial borrowed $200 million through two debenture issues to meet the combined demands upon the company. Imperial's capital program was increasing, there was strong inflation particularly in construction costs, and more working capital was required

to replace inventories of foreign crude as a result of OPEC price actions. These requirements for funds leading to the debenture issues illustrate the importance of Imperial's policy of maintaining a reserve of borrowing capacity.

In his testimony before this Commission on November 4, 1975, Professor Richard E. Caves referred to a diversified company creating an efficient capital market within itself, allocating its resources among its business operations so as to maximize the productivity of each dollar of retained earnings. (Transcript, pages 246-9). This is what Imperial has tried to do with the funds under its management. In so doing, it has had to estimate the possible rates of return and to balance the risks in its portfolio of new and existing ventures. Imperial regards projects such as Syncrude, the Mackenzie Valley pipe line, and Arctic exploration as promising, despite the inherent risks, and crucial for the future assurance of domestic energy supplies. Imperial also believes that neither the external capital markets nor governmental financial support can successfully launch and sustain such projects without the active participation of major petroleum companies sharing the burden of risk. As a large integrated enterprise with a depth of relevant technical expertise, in Professor Caves' terms Imperial is a highly efficient vehicle for moving resources from socially less valuable to more valuable uses.

The Integrated Petroleum Enterprise

In the world-wide growth of the petroleum industry, many firms have achieved large size through vertical integration, either from exploration and production through transportation and refining to marketing or in the opposite direction. This has proved to be the most efficient way to grow. The driving force on the one hand was the refiners' desire to have secure supplies of crude oil which lead them into the search for and development of their own reserves and transportation systems. On the other hand, with world-wide spare capacity, crude producers also sought secure outlets. Similarly, there have proved to be advantages in combining the refining of petroleum products with facilities to distribute and market a substantial portion of refinery output.

In Canada, as in the United States and Europe, the major oil companies have followed this pattern. This brief has shown how Imperial integrated from its initial refining and marketing organization back into production and exploration, subsequently expanding every phase of its petroleum operations.

Imperial's sales of refined petroleum products are almost totally integrated with its refinery production. In 1974, crude oil processed in Imperial refineries was 98.9% of the volume of petroleum products sales. A very different situation exists with respect to crude production. In 1974, Imperial produced crude oil at a rate of 51.1% of the volume of crude oil processed in Imperial refineries, a decline from 1972 and 1973. However, the Alberta prorationing system

assures an outlet to all the hundreds of producers, and within the limits of producibility, there is an assured supply of crude for all refiners. As a result, in spite of its integrated appearance, neither the production nor the refining function benefits directly from the company being involved in the other function. There are of course many indirect benefits as discussed earlier.

Imperial sells crude oil to many refiners and on occasion buys, sells or exchanges products with other refiners. Such transactions among refiners may reduce freight costs or enable more balanced production to meet changing demands for various petroleum products. Such dealings between companies, some integrated and others not, tend to minimize costs of producing, transporting and marketing petroleum products.

Growth achieved by vertical integration has brought greater advantages of scale of firm to Imperial as discussed in the previous section. This industry pattern has also served to stimulate competition in the petroleum business. If each major Canadian oil company had grown to its present size without vertical integration, it could only have happened through one or two companies dominating each phase of the process of bringing petroleum from the undiscovered reserve to the service station pump. Because of growth through integration, majors now confront majors, competing at each stage of the process with each other and with the many independent companies engaged in only one or two stages of the industry.

In recent years, the United States Congress has discussed a variety of proposals that would require the largest American oil companies to divest themselves of certain parts of their integrated operations. One proposal would

require vertical divestiture whereby the 10 or 15 largest oil producers would each be divided into separate companies for each of the functions of production, transportation, refining and marketing. Another proposal would require horizontal divestiture by the largest 20 companies of all energy interests except oil and natural gas. Such proposals have so far been rejected in the Congress or its committees.

Imperial considers that proposals of these types would be extremely counter-productive if introduced in Canada. Firstly, the economies of scale evident in the large firm which have been discussed earlier in this section would be lost to the Canadian consumer. Secondly, divestiture would impair not only the large firm's ability to raise large amounts of capital on the open market but also its internal capital allocation function. Divestiture would thus strike at the heart of many Canadian initiatives to finance important alternatives for future energy supplies.

Imperial considers that the large integrated enterprise is essential for the efficient functioning of the petroleum industry in Canada and for the mobilization of capital and sharing of risks necessary for launching new enterprises of national importance.

Conclusions

- Large scale in both petroleum and chemical operations makes possible lower average costs which, because markets are competitive, benefit consumers.

- In petroleum, Imperial, because of its size and large domestic market, can build optimum scale facilities.

- In petrochemicals, optimum scale facilities may require access to export markets.

- Because of its large size, Imperial can undertake research and technological development over long lead times.

- Because of its large size, Imperial can attract and use managerial talent and specialized staff skills across a broad range of operations.

- Because of its large size, Imperial is able to mobilize capital and take risks.

- All of these capabilities arising from size enable Imperial to efficiently carry out its normal operations and undertake massive complex and risky ventures.

- Imperial has achieved its present efficient size largely through growth as an integrated petroleum company, and the continuation of this scale of enterprise is critical for the future supply of energy in Canada.

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LIMITATIONS ON IMPERIAL'S
ECONOMIC POWER

V. LIMITATIONS ON IMPERIAL'S ECONOMIC POWER

This section discusses how Imperial's economic power is restrained and directed by competitive market forces and comprehensive government legislation.

First the section describes Imperial's share in each stage of the petroleum business from exploration to retail markets. Competitive behaviour in the industry is evaluated.

Next, the section refers to the legislation in Canada which reinforces competition in the markets in which Imperial sells, which controls the prices in these markets, and which assures the consumer of fair trading practices. In addition, the comprehensive public policy direction of the industry, its taxation, and the operating legislation covering all aspects of exploration and production, the construction of refineries and pipelines, and the building and operation of service stations are described. The section concludes with an examination of public disclosure and with references to direct government participation in the industry.

* * * * * * *

Limitations on Power - The Restraints of Competition

Professor Caves commented in his brief to the Commission that corporate economic power is inherent "...in any ability that the large corporation may have to influence the outcome of activity in a market where it sells or buys." (page 2) He further states:

> "Corporate power is an economically meaningful concept only in terms of a company's ability to affect the allocation of resources in a particular market: therefore large size matters mainly because it usually coincides with large market shares." (page 1)

Although Imperial is one of the largest Canadian enterprises, its power is effectively constrained by market competition.

In exploration, Imperial competes with other major and independent oil companies in obtaining the most promising sites and leaseholds. In the production of crude oil in Canada, there are some 600 producers, ranging from the very small to the very large. The great majority of them are non-integrated with about one-half of Canada's oil production coming from companies which do not have refineries.

Many companies, both those which are Canadian owned and others, can shift their activities to Canada or switch to other more promising countries depending upon their perception of geological and economic prospects or governmental attitudes and treatment. In that sense the market for

Table 4

IMPERIAL'S SHARE IN EXPLORATION, CRUDE OIL PRODUCTION AND NATURAL GAS SALES, 1974

A.	**EXPLORATION**	
	(1) Land holdings at year end: reservations, permits and leases (thousands of acres)	
	- Canada	7.7%
	- Alberta	2.4%
	- Yukon and Northwest Territories (south of 68°N. Lat.)	9.1%
	- Beaufort Basin	18.6%
	- Arctic Islands	1.4%
	- Eastern Canada offshore	15.1%
	(2) Net interest well completions, exploration and development (no. of wells)	
	- Oil	4.0%
	- Gas	1.1%
	- Dry	1.0%
	- Total	1.6%
B.	**CRUDE OIL PRODUCTION**	
	Production of crude and natural gas liquids (thousand barrels per day)	11.2%
C.	**NATURAL GAS**	
	Natural gas sales (millions of cubic feet)	6.3%

exploratory and production rights in Canada is international and subject to both domestic and world competition.

Table 4 indicates that Imperial is not in a dominant position in exploration and production. Imperial's share of national crude oil production was 11.2% and of natural gas sales 6.3% in 1974.

While the refining of petroleum products, because of its capital intensive nature, has fewer participants, 16 companies operate refineries in Canada. Table 5 shows Imperial's share of Canadian refining capacity and output to be just under 25%. These are likely to decrease in the next few years as refineries recently completed or still under construction in Southern Ontario and the Atlantic Provinces at least temporarily provide excess capacity.

In the petroleum products wholesale markets, about 500 principal distributors compete with the refining oil companies, some buying supplies from foreign sources. Professor Caves in his brief commented on the significance of many heterogeneous sellers in a market when he states, "Diversity and structural heterogeneity among rival sellers decrease their ability to reach tacit or express collusive agreements and thus decreases their shares market power." (page 5) Table 5 shows Imperial's share of the market for motor gasoline in 1974 was 25.1%, heating fuel 28.2%, aviation fuel 34.6%, and heavy fuel 23.3%.

Imperial also sells to "resellers" who market gasoline or fuel oil under private brand. For this reason,

Table 5

IMPERIAL'S SHARE OF REFINERY CAPACITY AND OUTPUT AND SALES OF PETROLEUM PRODUCTS, 1974

A. CAPACITY	
Stated capacity at year end (barrels per calendar day)	24.2%
B. OUTPUT	
Crude oil runs (barrels per calendar day)	24.7%
C. SALES TO CUSTOMERS AS % OF TOTAL SALES IN CANADA	
-- Motor gasoline	25.1%
-- Aviation fuel	34.6%
-- Light heating fuel	28.2%
-- Diesel fuel	30.2%
-- Heavy fuel	23.3%
-- Asphalt	26.4%
-- Lubricants	47.4%
-- TOTAL	28.4%

Imperial's branded product sales in the retail market for each petroleum product group form a smaller share of the market than its total sales. Nationally, Imperial's branded sales accounted for 20.8% and its total sales for 28.4% of all petroleum products sold in Canada in 1974.

Table 6 shows Imperial's share of the total number of service station outlets in certain principal local markets for motor gasoline across Canada. Across Canada Imperial and its dealers in 1974 had 17.8% of the total number of retail outlets selling motor gasoline and 11.8% of the "self serve" outlets. Imperial and other major oil companies in recent years have faced intensified competition from independent and private brand distributors whose share has grown markedly. Again, both diversity and structural heterogeneity among rival sellers are apparent.

In total, Esso Chemical's sales of additives, chemical raw materials, solvents and plastics in 1974 accounted for only an estimated 15% of the Canadian market for petrochemicals. Because of the smallness of the domestic chemical market and the relatively large scale of the optimum plant, Esso Chemical Canada has an apparently sizeable share of Canadian production capacity for certain petrochemicals: heptene (100%), polyvinyl chloride (43%), ethylene (39%) and propylene (38%). Its shares for others is smaller: benzene (25%), toluene (14%) and xylenes (14%). Share of production capacity overstates Imperial's market share because of the import competition which exists.

This examination shows that Imperial in both

Table 6

IMPERIAL'S SHARE OF RETAIL SERVICE STATIONS AND SELF SERVE OUTLETS

A.	MOTOR GASOLINE RETAIL OUTLETS (1974)	
	- Canada	17.8%
	- Principal city or Metropolitan area:	
	--St. John's, Nfld. (city)	36.0%
	--Halifax, N.S.	24.7%
	--Saint John, N.B. (city)	20.8%
	--Montreal, Quebec	14.4%
	--Toronto, Ontario	15.8%
	--Winnipeg, Manitoba	18.1%
	--Regina, Saskatchewan	20.2%
	--Edmonton, Alberta	23.8%
	--Calgary, Alberta	16.9%
	--Vancouver, B.C.	12.8%
B.	SELF SERVE GASOLINE OUTLETS (April 1975)	
	- Canada	11.8%

petroleum products and chemicals is not dominant in Canadian markets. Where market share is small, a firm is unlikely to dominate pricing or other aspects of market activity unless it engages in illegal collusion. In any event no conclusions about the extent of competition are possible unless there is an evaluation against recognized tests of performance in the market.

In a submission in December 1975 to the Ontario Royal Commission on Petroleum Products Pricing, Imperial reviewed the performance of companies in the important Ontario market for petroleum products and concluded that the industry was effectively competing as measured against each of six tests.

First, the analysis showed that gasoline prices between June 1972 and September 1975 had responded to changes in cost and supply and to changes in customer demand. Secondly, new companies had entered the market over the past 25 years and two major capacity additions were in progress at the end of 1974, demonstrating freedom for entry of new competition. Against a third test, the analysis found the market competitive inasmuch as there is a large number of sellers in the market and consumers have a wide range of choice in brand, price and service. The industry also met the fourth test, efficiency, since the industry has been a leader in the use of new technology and in reorganizing its distribution systems. The study also found that, apart from the impact of rising costs of crude oil, product prices had risen far less than prices in general. Also, according to the fifth test, the profit performance of the petroleum industry generally was found to be not excessive and not out of line with other Canadian

industries. Imperial's own return on capital employed for all of its operations in Canada was found to be somewhat better than the petroleum industry and total manufacturing, but profitability from refining and marketing was estimated for 1975 at a low point of about 5%, well below the corporate average and especially low in Ontario where it was estimated to be about 1%. Finally, the submission stated that there was an absence of collusion in the Ontario market as evidenced by the instability of retail prices, changing market shares, and repeated periods of excess refining capacity with subsequent revenue erosion. (Province of Ontario Royal Commission on Petroleum Products Pricing, Phase II, Submission of Imperial Oil Limited, December 1975, pages IV-1 to IV-30.)

Both when the structure of the industry is examined and when its performance is reviewed against generally accepted tests, it is evident that even the largest petroleum company in Canada has no dominant position and is effectively restrained by market competition.

Limitations on Power - Consumer Protection and Price Regulation

The Combines Investigation Act, currently being revised to strengthen its effectiveness, is one of the most important consumer protection statutes. Since the Commission does not intend to duplicate this review, this brief will not comment on the Act in detail. Imperial does, however, support the principles of fostering competition and prohibiting monopolistic and unfair practices on which this statute is founded.

In the hearing of the brief by Shell canada Limited on January 20, 1976, a view was expressed that the practice of price leadership escapes the reach of the Combines Investigation Act. Price leadership arising from a tacit agreement to fix prices would, however, violate this Act, and it is Imperial's policy to refrain from any such agreement with its competitors. Subject to any government restrictions at the time, Imperial is often first to make a price change for crude oil or for a refined product, but it never has any indication that other companies will follow and they have not always done so. Another seller who initiates a price change, has no indication that Imperial will follow its lead, nor has Imperial in fact always followed. Apart from government imposed restrictions, Imperial makes upward or downward changes in prices purely on the basis of its own independent assessment of the current market.

In an effectively competitive market, differences in price tend to disappear where there is a homogeneous commodity and little product differentiation, because the seller with the lowest price tends to attract all the business. Following another seller's lead is a monopolistic practice only if it is designed to hold the price above the competitive level. For these reasons, Imperial believes that any fears of express or tacit agreements on price leadership involving Imperial and its competitors or of the alleged inadequacy of the Combines Investigation Act to control price leadership are unfounded.

Today in Canada no large corporation has the ability

to change its price except under certain rigorously defined conditions. On October 13, 1975, the Prime Minister announced new anti-inflationary measures, including the establishing of the Anti-inflation Board. If continued beyond the time required to dampen the inflationary expectations so evident from 1973 to 1975, such measures will be an undesirable administrative burden on industry and unions and act as a brake on the effective working of the market system. Imperial is complying with both the spirit and the letter of the regulations governing prices and incomes as it understands them.

Consumers in Canada also have the protection of a substantial and growing body of consumer protection law covering products and services they buy. Federal legislation governs such matters as packaging and labelling, weights and measures, use and advertising of hazardous products, and standards and labelling of fertilizers. Provincial legislation commonly covers disclosure of the cost of credit, loan and credit agreements, unconscionable transactions, unfair trade practices, and the collection and dissemination of consumer information by credit reporting agencies. The scope and provisions of consumer legislation vary from province to province. Imperial must comply with all such legislation in relation to the manufacture and sale of its petroleum, chemical and household products.

Limitations on Power - Foreign Investment Legislation

In its hearings, the Commission has heard expressions of concern about foreign control of Canadian oil

companies. In its press release of June 24, 1975, the Commission indicated it would deal with foreign control of corporations in Canada, as follows:

> "The Commission does not intend at this stage of its work to make a special study of foreign control of Canadian Corporations or multinational corporations, about both of which so much as been written and with respect to which the Foreign Investment Review Act is intended to provide safeguards. The Commission plans to deal with the foreign control aspects as part of the various subjects it considers." (page 4)

Section II of this submission discussed the relationship between Imperial and its principal shareholder, Exxon Corporation. The conclusion was drawn that Imperial is managed by Canadians and enjoys a large measure of independence, subject only to its stewardship obligation for the large financial interest of a majority shareholder. By reason of Exxon's interest, Imperial is subject to the Foreign Investment Review Act which requires that the acquisition of a business or the establishment of a new unrelated business in Canada by foreign controlled companies be reviewed by the Foreign Investment Review Agency.

This measure of control has not satisfied those who for ideological reasons seek the expropriation or reduction of existing foreign investments in large corporations. Yet, for example, to change appreciably the ownership of Imperial would be a serious step indeed. In the first place, it would cost billions of dollars to buy all or even a controlling interest of a company like Imperial. Such an expenditure

would not create any new assets or resources in Canada. If purchase of Imperial shares from Exxon were required by the federal government it would have varied economic effects. The purchase would place a greater burden on the Canadian taxpayer, diminish the capital funds available for other purposes and affect the exchange value of the Canadian dollar. In the present circumstances all of these results would be unfortunate. Further, if the government were to purchase Imperial, it would place in the government sector one of Canada's largest business enterprises which can function most efficiently in the private sector where it must respond to the discipline and incentives of the market.

Such drastic measures for eliminating or reducing foreign shareholdings in major Canadian corporations are neither necessary nor reasonable. For example, certain sections in legislation amending the Combines Investigation Act effective January 1, 1976 are designed to provide a means of nullifying foreign legislation and directives by a foreign government or person that would adversely affect competition in Canada, or otherwise injure Canada's foreign or domestic trade without compensating advantages. These provisions could be invoked by the government to block any measures which a foreign government or parent company might take that would be detrimental to the Canadian interests.

Limitations on Power - Petroleum Policy Direction

While Imperial is governed by a substantial body of law applicable to industry at large, it also is subject to many federal and provincial policies and statutes specifically

designed to direct, tax or control the oil industry.

The basic policy of the federal government concerning assurance of oil supply from Canadian sources was laid down in the National Oil policy, inaugurated in 1961. Canadian markets west of the Ottawa Valley were dedicated to Canadian crude oil and the government aided in development of export markets for oil in the United States. With this assurance of a market, the exploration and production of Canadian petroleum was much stimulated and refining in Ontario expanded. Traditional distribution systems linking Quebec and Ontario were also modified as Quebec and the Atlantic Provinces continued to import oil at slightly lower prices than were obtainable from Canadian sources.

Beginning in 1973 and as the result of OPEC's price increases, the federal government began a series of actions to substitute its price and supply controls for market competition throughout oil markets in Canada. In September 1973 the prices of Canadian crude and most products made from it were frozen and an export tax was levied on crude oil. Prices of products made from imported oil were also controlled, and since January 1974, oil imports have been subsidized to keep the prices in eastern Canada down at the level of those based on Canadian crude.

The Arab oil export restraints in the winter of 1973-74 first caused Canadian oil to move to eastern Canadian refineries on an emergency basis. As a result, the federal government proceeded to have the Interprovincial Pipe Line extended to Montreal to provide more security of supply.

Shortly, the government will have to announce the operating policy and rates for this line.

Not only crude oil and its products but natural gas also has been affected. Federal-provincial negotiations as well as regulation by federal and provincial authorities now determine the quantities and the prices for all natural gas sales within a province, in interprovincial trade, or to the United States. The Petroleum Administration Act formalized many of the mechanisms referred to above.

At the provincial level another type of government initiative causes Imperial considerable concern. Despite the federal price controls on crude oil and petroleum products in place since September 1973, the Provinces of Nova Scotia and British Columbia have instituted and maintained their own price controls on petroleum products. In addition, in 1975 these governments as well as those of Ontario and Manitoba imposed temporary price freezes on petroleum products which resulted in a substantial cash shortfall for all oil companies.

Politically attractive measures to prevent world-wide oil price increases from reaching the consumer may prove to be self-defeating. In competitive markets, governments that set price ceilings can only show results by setting them at levels below the long run costs necessary to attract investment into the various stages of the production process -- exploration, production, refining and marketing. Comprehensive price controls of this nature, if long continued, serve as a deterrent to the generation and investment of funds necessary to assure future energy supplies in Canada. In addition,

marked differences in pricing policies from province to province over time create distortions in the pattern of investment and supply in the petroleum industry.

Taxation of the petroleum industry is both an instrument of government policy and an important source of government revenues. At the provincial level and in areas where the federal government holds mineral rights, royalty legislation has preserved for the Crown a significant share of the return from petroleum production. Using Alberta oil as an example, at the current $8.00 per barrel price of oil and after lifting costs, 76% of the balance goes to the federal and provincial government in taxes and royalties. If new investment is made, investment credits increase the industry income. Federal and provincial taxes on motor gasoline sold at service stations are a major share of the cost of gasoline to the motorist. For example, of a typical Toronto retail price of 80.9¢ per gallon for gasoline, 41% is made up of provincial road tax, federal sales tax and federal excise tax.

Earlier in this brief reference was made to the large and growing amount of taxes and royalties paid by Imperial. The increase in amount of taxes charged against income by Imperial (to $376 million in 1974) and in crown royalties and similar payments ($251 million) reflects the tendency in recent years for governments to tax the petroleum industry more heavily. Differences in views held by the federal and provincial governments have on occasion led to double taxation.

Both federal and provincial policies with respect to the distribution of the returns from petroleum production are in process of change. The federal crude oil export tax and changes in the structure of provincial royalties in several provinces have altered the proportion of the returns flowing to governments as against the private sector. Over a period of time, Imperial would argue for a greater element of certainty and stability in the tax laws and in the rewards earned by the petroleum industry for successful exploration. The extent and direction of the industry's exploration programs in Canada generally and in any part of Canada cannot fail to be influenced by a balancing of estimated risks, costs and taxes against anticipated returns. Tax and royalty policies are powerful directive tools.

Limitations on Power -
Regulation From Well to Service Station

In addition to the body of statutes, directives and decisions shaping the pattern of markets and distribution systems in Canada, the provincial governments and the federal government in the Yukon and Northwest Territories exercise comprehensive control over exploration and production of oil and natural gas.

For example, under the Alberta Oil and Gas Conservation Act, the Alberta Energy Resources Conservation Board is charged with the functions of managing energy resources and the environment in relation to oil, gas, oil sands, pipe lines hydro-electric energy, and coal. The Board appraises reserves, oversees exploration, and regulates well-drilling, operation

of wells and the production and processing of oil and gas. It also regulates structures and equipment and administers air and water pollution controls and safety regulations. Since 1948, the Board has prorationed oil production, and in this connection has appraised production capacity and the requirements of Alberta and outside markets. Whenever demand for Alberta oil is less than potential supply, the prorationing regulations effectively reduce Imperial's production of crude oil. The Alberta Board also regulates the construction and operation of pipe lines within the Province, including the environmental aspects.

In the Yukon and Northwest Territories, federal statutes regulate exploration, drilling and pipe lines but there is no prorationing of production. Two federal statutes, the Public Lands Grants Act and the Territorial Lands Act, govern the sale, lease or other forms of disposition of Crown lands and also exploratory work and extraction of oil and gas on these lands. Other federal statutes protect Arctic waters and inland water resources, fisheries, migratory birds and game. The Indian Oil and Gas Act governs the granting of leases, permits and licences for oil and gas exploration on Indian lands. Approval of native councils must be obtained for seismic and drilling work in their communities. In addition, the Oil and Gas Production and Conservation Act provides for regulation of exploration, drilling, production, conservation, processing and transportation of oil and gas in the Yukon and Northwest Territories.

Construction of a refinery in Canada typically requires the approval of various municipal and provincial authorities at each stage -- development, design and con-

struction. In this respect, the task of obtaining many necessary approvals from various governmental agencies is similar to that involved in the building of a factory or similar facility in another line of manufacturing. Since a refinery is a tall structure, utilizing river or lake water, involving road and pipe line construction, and having implications for safety and for the environment, it will on each of those counts and many more be subject to public scrutiny and control.

Typical service station approval procedures involve dealings with municipal authorities and with provincial licensing authorities for rezoning and site plan approvals, building permits, plumbing, traffic and health permits, business licences, petroleum dispensing and tankage permits, and tax vendors' permits. Food handling, septic tank, and well water supply system approvals may also have to obtained.

Altogether,Imperial calculated in early 1974 that its petroleum operations were then regulated by more than 375 pieces of federal and provincial legislation involving some 275 departments, branches and agencies. ("The Energy Problem: Government/Business Interaction Oil & Gas", A paper by D. H. MacAllan, Vice-President, Corporate Affairs, Imperial Oil Limited to the Institute of Public Administration of Canada, National Seminar, May 7-9, 1974, pages 12-13.) These figures demonstrate the comprehensiveness of the controls as well as the complexity of the communications and administration problems which Imperial faces in meeting all the requirements of the various levels of government.

Limitations on Power - Disclosure

Imperial has an open policy of disclosing to the public, through such means as annual reports and statements and speeches by its officers, information on developments and issues affecting people whether in local communities or across the nation. It also supplies substantial amounts of information about its operations to various government agencies and commissions.

In his brief to the Commission dated November 3, 1975, Mr. Robert Bertrand, Assistant Deputy Minister, Bureau of Competition Policy, and Director of Investigation and Research under the Combines Investigation Act, raised the matter of disclosure of financial and economic information by corporations and conglomerates. Mr. Bertrand stated:

> "The disclosure I am talking about would open up to public scrutiny more precise details about the inner workings of business and business operations. It would have to be in sufficient detail, at least to the degree of line of business information, so as to allow governments, investors, businessmen and consumers to obtain a more realistic picture about particular sectors of the Canadian economy." (p. 47)

Mr. Bertrand further stated that he believed "...that greater financial disclosure is an essential tool if we are to create and sustain a sound competitive milieu in this country." (page 48) He also thought it would play an important role in ensuring more effective regulation of industry.

Commenting on the need of his agency for more information in order to enforce the Combines Investigation Act and advise the government on competition policy issues, Mr. Bertrand saw three needs: first, for detailed financial information on a continuous basis in order to monitor the activities in particular product markets; secondly, for detailed market information for advising the government on matters affecting competition policy, such as tariff policy and regulatory policy; and thirdly, for specific and continuous information as a tool in identifying problem sectors and in allocating combines enforcement resources. (pages 48-9)

In 1973, the U.S. Congress attached to a bill authorizing the Alaska oil pipe line a rider that widened substantially the information gathering powers of the Federal Trade Commission, allowing it to demand a wide range of sales, profit and expense data from businesses by specific product lines. When the Federal Trade Commission in 1974 sent out questionnaires seeking line of business reports from 345 of the largest American corporations, some 120 corporations protested the burdensome nature and lack of usefulness of the data required, and challenged in the courts the overall legality of the program. (<u>The Conference Board Record</u>, Vol. XII, No.10, October 1975, "On the Road to Regulation" by Theodore F. Craver, pp. 24-5.) Because of the substantial added cost of doing business that such comprehensiveness reporting would entail, Imperial, and likely industry in general, would feel deep concern if a comparable program were attempted in Canada. Imperial would accordingly urge that governments should exercise restraint in defining their

needs for continuous reporting of comprehensive industry information, which is likely to be more burdensome than periodic requests for information to meet specific needs.

Nevertheless, Imperial recognizes the existence of "information gaps" between governments or the public and the oil industry on such matters as definition of reserves, size of profits, and control over prices. Information will probably never satisfy those whose ideology leads them to attack private ownership in the oil industry *per se*. In any event, Imperial welcomes opportunities, such as this Commission affords, to inform governments and the public on questions of wide or particular concern. The company has consistently shown its willingness to review in depth its operations before any properly constituted commission or legislative authority, and there are many of them. It has a reputation for the completeness of its financial disclosure, winning many awards for its shareholder reporting. Through its information services and its publications it has also continually tried to keep the general public informed.

Limitations on Power - Direct Government Participation

Various governments in Canada have become directly involved in the operations of the petroleum industry. In 1968, Panarctic Oils Ltd., which has some 20 shareholders, mainly petroleum and mining companies, was formed with approximately 45% of the outstanding shares being held by the Government of Canada. Panarctic is an exploration company working primarily in the eastern Arctic.

The crisis caused by escalating costs and the withdrawal of a partner from Syncrude in 1974 led to the federal government and the Provinces of Alberta and Ontario assuming a share in this immense project.

In 1975, the federal government also established a national petroleum company, Petro-Canada, with authority to explore, develop and exploit hydrocarbon deposits inside and outside Canada, to buy petroleum products from abroad, to carry out research and development projects, and to produce, distribute, refine and market hydrocarbons and other fuels. Petro-Canada is also to assume the federal government's interest in Panarctic and Syncrude.

Several provinces have also formed crown corporations with functions relating to the petroleum industry. SOQUIP, formed in 1970, is financed by the government of the Province of Quebec. In 1973, the British Columbia Petroleum Corporation and the Saskatchewan Oil and Gas Corporation were formed with broadly stated functions. The Governments of Ontario and Alberta have also both established energy corporations with the apparent intention of supplementing the private sector. The exact role which any of these provincial corporations will play is still to be determined.

The practical advantages of direct government participation in petroleum operations are uncertain. However, participation by government may well enhance its understanding of the problems, needs and contribution of the industry. Imperial's misgivings about the value of direct government participation centre upon the question of whether any govern-

ment is really equipped to perform efficiently the risky, costly and highly technical tasks of finding crude petroleum or processing and delivering petroleum products to market. Imperial does not believe that government supported agencies, such as Petro-Canada, should obtain any special privileges or concessions to enable them to gain a competitive edge. Imperial believes that there are distinct limits to efficient government involvement in petroleum operations, and that the privately owned companies are better equipped to undertake the risks and to provide the technical and managerial skills.

Conclusions

- Imperial cannot dominate either its markets or the economy as a whole. Imperial's economic power is effectively constrained and directed in all phases of its petroleum and chemical operations by market competition and by public directives, legislation and scrutiny.

- In spite of its size, Imperial's share of any phase of the petroleum industry in Canada, from crude oil or natural gas production to marketing, is quite small.

- Competition in Imperial's markets is alive and effective as measured by accepted economic performance tests.

- The competitive market place is reinforced by various types of legislation protecting the consumer.

- The federal government through the Foreign Investment Review Act and recent amendments to the Combines Investigation Act has taken steps to protect Canadian interests as affected by foreign ownership, directives and legislation. Imperial supports these initiatives.

- The petroleum industry is subject to a wide variety of policy directives and controls, at both the federal and provincial levels.

- Tax and royalty regulations if uncertain or shifting, and conflicting provincial and federal price controls if long continued, will act as a deterrent to the generation and investment of funds needed to assure future energy supplies.

- Other federal and provincial legislation specifically and comprehensively governs every stage of Imperial's operations in exploration, production, transportation, refining and marketing in the interests of safety, health, conservation of resources, environmental protection and other important public interests.

- If a higher level of public understanding is a requirement, there is an urgent need to evaluate the growing burden of continual reporting to governments against less costly alternatives.

- There are distinct limits to the role and effectiveness of crown corporations in the petroleum industry.

- In Canada, with its effectively competitive market system and its democratic form of government, real economic power rests with the public.

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DIRECTIONS FOR THE FUTURE

VI. DIRECTIONS FOR THE FUTURE

Imperial's strategy for the future involves both its function as an economic entity developing new energy supplies and its place as a corporate citizen in the Canadian society. This concluding section discusses Imperial's role in the context of the continuing challenge to Canada to find a proper balance between its economic and social goals as a nation. Some of the fundamental problems and choices for Canadian society are examined, and it is suggested that their successful resolution is dependent upon the continuance of strong and efficient corporations such as Imperial.

* * * * * * *

The Energy Challenge

A large firm like Imperial, contributing substantially to investment, employment and gross domestic product in Canada, as well as to government revenues, is inevitably involved in assisting Canadians to attain their economic and social goals. The goals are set in large measure by public attitudes and crystallized in government policies and legislation in a variety of economic and social spheres. But unless the investors, employers and producers in the country can provide sufficient incomes and output for Canadians, neither the economic nor the social goals will be realized.

By the nature of its business, Imperial is most directly involved in trying to provide Canadians with continued adequate supplies of energy. It is first of all a provider of today's energy, a converter of petroleum into usable goods, and secondly, a pioneer in the development of new energy reserves.

The world's energy needs will continue to grow as population and industrialization increase in the less advanced countries. Canada, a major producer of food, fertilizer, forest products and minerals, cannot escape this world need, this world opportunity. Imperial therefore expects growth, not stagnation, in Canada. So many economic and social tensions, national and international, can be relieved by growth that it is inconceivable that Canadians or their politicians will accept a no-growth, cut-back economy or a "Little Canada" philosophy.

The immensity of the challenge posed by ever growing populations has led some observers to the "Limits to Growth" hypothesis. But more optimistic observers believe that continuing technological progress will meet the challenge and bring about a reduction in the population growth rate of today's underdeveloped nations. Insofar as energy is concerned, new sources of energy will continue to be developed as scientists and engineers solve the problems of oil sands recovery and nuclear fusion. Also with technological progress, the possibilities for reducing wastes of energy are substantial -- in factories, in transport, in homes.

Canada's energy outlook as shown on Table 7 portrays the job to be done both in reducing demand growth and in providing essential new energy supply.

With real growth in GNP of 4½% per year, energy demand could double by 1990. Alternatively, if there is a strong response to higher prices and demand reducing programs, Imperial estimates demand growth could be cut by one million barrels per day by 1990 without seriously impairing general economic growth.

An ambitious program to develop coal, hydro and nuclear supply could result in these sources providing 2½ times their 1975 output by 1990. Typical projects for nuclear electricity are costing $2.5 billion and for hydro

Table 7

CANADIAN ENERGY OUTLOOK*

	Millions of Barrels per Day Oil Equivalent Input Basis			
	1975	1980	1985	1990
DEMAND	4.0	4.8/5.1	5.8/6.4	7.0/8.0
SUPPLY				
Coal	0.3	0.5	0.7	1.1
Hydro	1.0	1.2	1.5	1.5
Nuclear	0.1	0.2	0.4	0.9
	1.4	1.9	2.6	3.5
Petroleum	2.6	2.9/3.2	3.2/3.8	3.5/4.5
--Current Domestic Sources	3.0	3.2	2.8	2.2
--New Domestic Sources or Import			0.4/1.0	1.3/2.3

* Real GNP growth assumed to be 4-1/2% per year

power as much as $10 billion. Up to 1985, the total capital cost of this new supply is estimated at $65 billion (all constant 1976 dollars).

With this immense investment in non-petroleum supply, the share of supply which petroleum must meet declines but the volume requirements increase substantially even with a marked reduction in the rate of demand growth. Production of oil and gas from current domestic reserves, including Great Canadian Oil Sands and Syncrude, is declining and investments of at least $15 billion (constant 1976 dollars) will be required just to sustain the levels shown.

What remains to be supplied by petroleum represents a key national choice. If in 1990 it is all imported, it will cost from $6 to $11 billion per year (1976 price). Alternatively, Canada can look to its own petroleum potential. These potential reserves are in very hostile areas, and if and when proven, the development and transportation job will be massive. Each exploration well can cost from $5 to $25 million, a gas plant $500 million, and a synthetic oil plant $2 to $3 billion. For a major pipeline, the feasibility study costs $100 million, and the line itself from $4 to $10 billion. In total and based on Imperial's present view of the opportunity, the total investment for new petroleum supplies in Canada by 1985 will be some $20 billion (all 1976 dollars).

Imperial's strategy for growth calls for continued exploration in Canada, and possibly elsewhere where there are promising prospects for finding conventional oil. It calls for bringing to bear on Canadian problems its own research and new know-how from around the world. Either alone or in association with others, Imperial will continue to mobilize capital, technology, and management for large energy development projects that are required for the future.

The Balance of Economic and Social Goals - To the Present

While Imperial views its main duty to be the efficient performance of its economic function, the company's officers and employees are sensitive to society's changing expectations. The company sees economic performance and social acceptability as inseparable and interdependent and is proud of its record of good citizenship.

In Canada's early postward period, a high level of employment and a high rate of growth were clearly defined economic goals that also seemed at the same time to promise satisfaction of social goals of health and improved material well-being. During the 1960's and 1970's, however, public attitudes changed perceptibly to include more emphasis on an equitable distribution of rising incomes and, more recently, on the compelling need to halt double-digit inflation.

Meanwhile, many other goals have come to the fore affecting both Imperial and business generally, such as environmental protection, consumer protection, rights of minority groups, a greater sense of national identity and destiny, support to lagging regions of the country, improved quantity and quality of housing, and better and more easily accessible education.

Imperial's economic functions and the specifics of its operations have been affected by every one of these social goals. Conversely, the performance of its economic functions and its commercial successes have assisted materially in the achievement of those goals. For example, in the environmental area the company has developed detailed operating procedures in its exploration activities in the Arctic and elsewhere and in its refining and distribution facilities, which meet or surpass community standards. The company has spent many millions of dollars on environmental protection. In a similar way, the aims and objectives of the consumerism movement have been reflected in changing advertising, packaging and other marketing operations. At the community support level, the company and its people have been leading contributors to educational, research, charitable, cultural and other community service organizations.

The distribution of Imperial's economic activities and the rewards that flow from them in many ways reflect the broader goals of society. Imperial has spread its investments through all regions of the country as described in Section II of this brief. The company purchases goods and services in

every part of Canada, and has employees in every province. These employees have fared well with average wages and benefits of $19,800 in 1975. Imperial's prices provide a key test of whether consumers, the company's customers have received fair value from its economic operations. As described to the Ontario Royal Commission on Petroleum Products Pricing:

> "Imperial's unit revenue for petroleum products stayed well below both average weekly earnings and gross national expenditure deflator indices until the very recent and unprecedented increase in the cost of crude oil -- and -- is still far below the other two price indices when the cost of crude oil is removed." (Province of Ontario, Royal Commission on Petroleum Products Pricing, Phase II, Submission of Imperial Oil Limited, December 1975, page IV-23.)

The Balance of Economic and Social Goals - Into the Future

It is a fact that today the aspirations of Canadian society for the years ahead pose inescapable choices and problems for the people of Canada and for a company like Imperial. Some of these are discussed in a recent article by Dr. Arthur J. R. Smith, president of The Conference Board in Canada. ("The socio-economic environment of the decision maker: in Cost and Management, September-October 1975, pp.6-12.) First, he questions whether these new and highly desirable economic and social goals can be achieved only at the expense

of poorer national performance in relation to such other goals as high employment, dynamic growth, reasonable price stability and a strong balance of payments position. He comments that the demanding new social objectives may be inconsistent with high growth in national productivity and in average real personal disposable income. Secondly, Dr. Smith asks which of the complex new trade-offs in establishing national goals will be accepted by the public. He observes that there is no national consensus on how much higher inflation, higher unemployment or poorer economic performance Canadians will tolerate in order to pursue certain economic and social aims vigorously. He further raises a "chilling" question: Are escalating government initiatives to pursue new social and economic goals proving to be ineffective? And a "bleaker" question: If Canada moves in directions that inhibit productivity and efficiency, is the real problem not one of equality versus efficiency, but rather the problem that we will lose both? In other words, will a poorly functioning economy inevitably mean fewer resources available for both private economic welfare and social progress? Finally, Dr. Smith asks the "perplexing" question as to whether the ultimate value of an affluent, more progressive democratic society may be that people can have "pluralistic, diverse, incompatible, economically wasteful and contradictory goals"?

These unresolved questions, Dr. Smith believes, explain why it is a troubled time for decision makers, both government and private. The situation is aggravated by some public disillusionment with all institutions and leadership, rapid growth in the power of governments, and a significant deterioration in government-private sector relationships.

He further observes that Canada has progressively fallen behind the economic advances of many other countries, leading to possible future lags in social progress as well. Dr. Smith concludes that economics is a hard task-master - one that imposes basic and vital restraints on what a nation can achieve in terms of its social and economic goals. The decade ahead he labels as the decade of "The Big Trade-Offs".

Imperial believes that decision makers in business and other organizations as well as governments share a responsibility, according to their particular aptitudes and vantage points, to contribute to the public debate and decisions on what Canada's economic and social goals should be and what trade-offs should be chosen. The social responsibilities of all decision makers appear to be broadening inasmuch as every decision maker must take account of an ever broader range of social issues and inasmuch as a wider group of decision makers in the government and private sectors must participate in determining society's directions for the future.

Prerequisites for Progress

From its vantage point as a Canadian corporate citizen with close to a century of active participation in the petroleum industry, Imperial would commend to the Commission certain principles and objectives as society seeks to define its economic and social goals and priorities.

Broader and more costly economic and social benefits for a growing population can satisfactorily be achieved in only one way -- by increasing the output and income of the economy. A poor economic performance jeopardizes the attainment of the goals. The diversion of resources from more productive to less productive uses has the same effect. Therefore, one of the prerequisites for meeting the cost of economic and social benefit programs is to achieve the goal of an efficient economy.

This paramount goal suggests a number of policy goals that all contribute to a highly productive and strong economy. A high level of employment and low rates of unemployment signify not only productive use of Canada's generally well educated and skilled manpower but also are an important social goal as well. People in all regions and ethnic groups in Canada should have the opportunity to participate in society's economic tasks, and attention should be devoted to removing barriers of discrimination or lack of training that stand in their way. An efficient economy depends upon a high level of productivity and of technical progress and Canada's poor record of productivity in recent years should be a matter of concern. Access to world wide advances in technology is particularly important for a relatively small country such as Canada, and research of many kinds within Canada should have strong encouragement. Also, Canada's balance of payments position must be strong, or the country is mortgaging its future. The severe impact

of future imports of oil, involving billions of dollars of payments to foreign countries, shows an urgent need to maximize the search for new sources of energy supply based on Canada's own potential reserves. All levels of government, as well as molders of opinion and business decision makers share in the responsibility for attitudes and policies that bring about an efficient economy.

A second prerequisite for meeting society's goals is an equitable material distribution. Wealth, income and opportunity are the principal aspects of material well-being. An equitable distribution is not necessarily an equal distribution, but one that is based in large measure on ability, work, and contribution to society. Over a person's life span, his share of income, wealth and opportunity will normally vary. While redistribution of income through taxation and transfer payments has loomed large in governmental thinking, it is equally important that choice and opportunity should be maximized for all Canadians, that rights and aspirations of the weak should be respected, and that the disadvantages of the disadvantaged be remedied. The ramifications of the goal of an equitable material distribution are both economic and social. For example, all Canadians may have to be more aware of the need for an equitable settlement of native land claims if energy resources in the North are to be developed and transported southward.

A further requirement for progress is a strong private sector. The function of privately owned business is to provide goods and services, to undertake the risks and uncertainties that this activity entails. Only in a free and competitive market system will the inefficient be weeded out and consumers be assured of high quality products and services at low prices. A strong private sector implies ability to compete at home and abroad. Subsidies to the inefficient, rigid and bureaucratic controls over the strong, or ideologically motivated nationalization can only weaken the private sector. Fostering competition and allowing scope for private enterprise will strengthen it. The presence of both large and small firms in industry permits each to do what it can best. Imperial would urge the Commission to recommend that governments should foster this type of industry structure.

An effective government sector is a further requirement for the achievement of society's goals. The power of government today is great and growing. While governments may promote an efficient economy, and equitable material distribution and a strong private sector, their normal role is not the production of goods or of most services. If a government cannot decide its priorities, is unrestrained in its growth, sees no limits to its activities, and diverts resources from productive uses, it will not only be ineffective but it will impede the achievement of economic and social goals. Greater attention should be paid to the structure and productivity of government activities in Canada for the future.

Finally, from its vantage point in the petroleum industry, Imperial is aware of the vital importance for the economy and society of assurance of adequate supplies of energy at an economic cost. Growing reliance on foreign oil supplies in the future could progressively impair Canada's economic strength and its standard of living. The privately owned oil industry is essential for the task of developing new sources of energy based on Canada's own potential reserves. Appropriate government policies are essential for the industry to perform this difficult task effectively, and some such policies touch upon the task of the Commission.

First, it must be recognized that energy development projects in the future will be even larger, more complex, and more risky than in the past, and that for the larger projects only large corporations like Imperial can mobilize the necessary resources of capital, technology and skilled management. The large privately owned firm may thus have to become even larger to do the job. Imperial would suggest to the Commission that structure of the petroleum industry as it exists today with its mixture of large and small privately owned firms, is consistent with an objective of overall efficiency with each firm performing the function it does best.

Secondly, Imperial must still in the future be allowed to risk its capital and strive for a commensurate return. Profits must be recognized as essential for Imperial's ability to generate and attract capital needed for its existing operations and for new projects. Taxation and royalties paid by corporations engaged in this type of enterprise should accordingly be reasonable and relatively

predictable, or sufficient capital will not be available. Imperial suggests that the Commission recognize that, in a competitive industry such as the petroleum industry, profits are a legitimate reward for risk and effort, and that they are vital to the corporations and fair to the public.

Thirdly, strong international links are vital for secure supplies of such oil as Canada must import, for access to technology and possibly capital for future energy development, and for markets for many of Canada's petroleum and chemical products. Imperial urges the endorsement and continuance of policies that will enable Canada to benefit from influences and opportunities in other countries.

Imperial is optimistic about Canada's future , about the setting of goals and priorities, and the possibilities of balancing economic and social aims. Imperial is willing to share in the increasing responsibilities of resolving complex questions as to what policies governments, business and society as a whole should adopt. Imperial is confident of its own capability, given appropriate government policies, to meet its responsibilities in performing its economic function, in adapting to changing expectations of society, and in providing for Canada's future energy needs.

Conclusions

- Canada's economy will continue to grow and energy demand could double by 1990. To meet requirements for petroleum from Canadian sources will necessitate investments of at least \$35 billion by 1985. (1976 prices)

- Imperial will continue, alone or with others, to mobilize capital, technology and management for large new energy development projects.

- In its economic functions, Imperial has adapted to the changing goals of society which have increasingly emphasized social objectives and its commercial success has contributed materially to their achievement.

- Looking to the future, no corporate or individual citizen and no government can escape the necessity of dealing with the choices and problems caused by conflicting social and economic goals and expectations.

- The extent to which economic and social goals are attainable depends on whether the priorities set lead to good or poor performance of the economy which supplies the means of paying the bills. Economic and social goals must be balanced.

- The social responsibilities of decision makers are broadening to cover more issues and decision makers in business, in other organizations and in governments, share the responsibility for choosing goals, identifying trade-offs, and setting priorities that will optimize economic and social progress.

- The prerequisites for economic and social progress include:

  (1) An efficient economy;
  (2) An equitable distribution of national wealth;
  (3) A strong private sector;
  (4) An effective government sector;

  Also, from its vantage point as an energy producer, Imperial would stress:

  (5) Supplies of energy at an economic cost.

- To enable Imperial to perform its economic function of providing energy supplies at an economic cost, the following realities should be recognized:

  (1) Future energy development projects will be increasingly large, complex, and risky, necessitating the participation of strong, large corporations in the private sector. An industry structure composed of large and small firms will enable each firm to do the job for which it is best fitted.

  (2) Profits are essential for attracting the capital necessary to meet energy requirements and under competitive conditions such as prevail in the petroleum industry, are a legitimate reward for risk and effort.

Taxation and royalty charges by governments should be fair and predictable to maintain investor confidence and sufficient cash flow for reinvestment in energy projects.

(3) Access to foreign technology, capital and markets will contribute to the vigour of the private sector and bring important benefits to the Canadian economy. Government policies should be designed to continue the flow of benefits from the Canadian petroleum industry's links with other countries.

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APPENDICES

APPENDIX "A"

WHOLLY OWNED SUBSIDIARIES OF IMPERIAL OIL LIMITED

With dates of incorporation and acquisition of interest

Note: Omits: (1) Inactive companies

(2) Companies that have been dissolved.

WHOLLY OWNED SUBSIDIARIES OF IMPERIAL OIL LIMITED

Company	Incorporated	In	Acquired Interest	Business
W.H. Adam, Ltee, Ltd.	Nov. 22,1951	Quebec	July 15,1960	Wholesale and retail marketing of fuel oil and gasoline
Albury Company Limited	Nov. 23,1967	Bermuda	Nov. 24,1967	Trading company

Affiliate:

Western Oil & Trading Company Limited (100.0%)

Company	Incorporated	In	Acquired Interest	Business
Allied Heat and Fuel Limited	Aug. 31,1967	British Columbia	Aug. 31,1967	Sale of heating oil and oil heating equipment
Archibald Fuels Limited	July 10,1941	Nova Scotia	Apr. 28,1972	Fuel oil distributor
Atlas Supply Company of Canada Limited	Mar. 25,1930	Canada	Oct. 8,1953	Sale and distribution of TBA
Bourque Brothers Limited	Sept. 13,1954	Ontario	July 18,1963	Marketing of heating oils and equipment
Building Products of Canada Limited	Dec. 9,1936*	Canada	Dec. 9,1936*	Manufacture, distribution and sale of building products

* Formerly Imperial Oil Shipping Company Limited, name changed by supplementary letters patent dated July 17, 1964. The dates appearing in items indicated refer to Imperial's original interest in that company. The acquisition of Building Products Limited assets effective July 31, 1964, resulted in the reorganization of Imperial Oil Shipping Company Limited into the present company.

Affiliates:

Midwest Fibreboard Ltd. (100.0%)

Renown Building Materials Ltd. (100.0%)

Company	Incorporated	In	Acquired Interest	Business
Champlain Oil Products Limited/Produits Petroliers Champlain Limitee	Dec. 3,1932	Canada	Aug. 10,1937	Marketing of petroleum products in Quebec
Affiliate:				
Centres Citadelle Limitee/Citadel Centres Limited (100.0%)				
Delta Rope & Twine Limited (95.5% owned by Imperial Oil Limited)	Oct. 19,1966	Bahamas	Nov. 15,1966	Manufacturers and dealers in natural and synthetic fibres and materials used for manufacture of rope and twine in the Bahama Islands
Devon Estates Limited	Oct. 22,1947	Alberta	Oct. 22,1947	To buy, sell and hold real estate in Canada
Affiliates:				
Moraine Properties Ltd.		(50.0%)		
Williamsport Properties Limited		(50.0%)		
ESF Limited	Jan. 6,1966	Canada	Jan. 6,1966	Operating automotive gas bars, restaurants, oil heating service distribution agency and automotive accessory warehouse
Esso of Canada Limited	June 12,1935	Canada	June 12,1935	Name protection in Canada

Company	Incorporated	In	Acquired Interest	Business
Hall Fuel (1965) Limited	Mar. 31,1965	Ontario	May 3,1965	Marketing of fuel oils, burners and furnaces in Ontario
Home Oil Distributors	Jan. 16,1928	Canada	May 15,1937	Marketing of petroleum products, automotive supplies and miscellaneous merchandise
Affiliate:				
Hi-Way Petroleum Ltd. (100.0%)				
Imperial Oil Developments Limited	July 28,1964	Canada	July 28,1964	To acquire and develop petroleum and natural gas rights
Imperial Oil Enterprises Ltd.*	Sept.30,1942	Canada	Sept.30,1942	Petroleum exploration and manufacturing activities in Canada
* Formerly St. Clair Processing Corporation Limited, name changed by supplementary letters patent dated December 11, 1962.				
The Imperial Pipe Line Company Limited	Sept.16,1914	Canada	Sept.16,1914	Pipeline transportation of crude oil in Canada
Ioco Townsite Limited	May 27,1920	British Columbia	May 27,1920	Administration of townsite of employee housing at Ioco, B.C.

Company	Incorporated	In	Acquired Interest	Business
Lou's Service (Sault) Limited	Aug. 18,1958	Ontario	Oct. 31,1969	Service Station (inactive)
Maple Leaf Petroleum Limited	Nov. 3,1931	Alberta	July 6,1937	Marketing in Alberta
Mongeau & Robert Cie Ltee	June 28,1930	Canada	July 15,1959	Investments in real estate and other property
James Murphy Fuel Oil Company Limited	Feb. 27,1959	Ontario	Mar. 17,1959	Marketing of fuel oils in Ontario
Nisku Products Pipe Line Company Limited	July 17,1953	Alberta	July 17,1953	Pipeline transportation in Alberta
Northwest Company, Limited	June 18,1917	Canada	June 18,1917	Exploration for oil and gas
J. P. Papineau Ltee/Ltd.	Nov. 23,1971	Quebec	Nov. 23,1971	Heating oil distributor
Poli-Twine Corp. Ltd.	Mar. 2,1964	Saskatchewan	Nov. 15,1966	Manufacture of synthetic twine and distribution of petroleum products
Polybottle Limited*	Feb. 25,1960	Canada	Dec. 4,1964	Manufacture and sale of plastic containers

* Incorporated under the name of Polybottle (1960) Limited, name changed by supplementary letters patent dated May 3, 1963.

Company	Incorporated	In	Acquired Interest	Business
Seaway Bunkers Limited	Mar. 28,1957	Canada	Mar. 28,1957	Bunkering and suppliers of and dealers in marine petroleums and petroleum products in Canada
Servacar Ltd.	Dec. 5, 1963	Ontario	Dec. 5, 1963	Operating automotive service centres throughout Canada
Winnipeg Pipe Line Company Limited	May 6, 1950	Manitoba	May 6, 1950	Pipe line transportation from Gretna to Winnipeg in Manitoba

APPENDIX "B"

SUBSIDIARIES IN WHICH IMPERIAL OIL LIMITED HAS A 50% OR SMALLER INTEREST

With dates of incorporation and acquisition of interest

Note: Omits:

(1) Any company in which the effective interest by Imperial Oil Limited is less than 10% (except for Trans Mountain Pipe Line Company Ltd. and its affiliates);

(2) Inactive companies;

(3) Companies that have been dissolved.

SUBSIDIARIES IN WHICH IMPERIAL OIL LIMITED HAS A 50% OR SMALLER INTEREST

Company	Incorporated	In	Acquired Interest	Business	% Ownership by Imperial
Alberta Products Pipe Line Ltd.	Jan.12,1971	Alberta	Jun.23,1971	Pipeline distribution of petroleum products in Alberta	30.0
Beaufort-Delta Oil Project Limited	Dec. 5,1974	Canada	Dec.10,1974	Preparation of application for Arctic crude oil pipe line permit	20.0 Also Trans Mountain Pipe Line Co. Ltd. owns 20.0
Carnduff Gas Limited	Jan.29,1959	Saskatchewan	Jan.29,1959	Constructing, owning and operating a gas gathering system in the Carnduff area	25.1
Cuvier Mines Ltd.	Apr.15,1946	Quebec	May 10,1973	Mining, exploration and development	11.3
Interprovincial Pipe Line Limited	Apr.30,1949 (Continued Aug. 1,1973)	Canada	May 6,1949	Pipeline transportation in Canada	32.8

Affiliate: (over 50%)

Lakehead Pipe Line Company, Inc. (100.0%)
(which owns 100.0% of Pipe Line Service Company, Inc.)

Company	Incorporated	In	Acquired Interest	Business	% Ownership by Imperial
Montreal Pipe Line Company Limited	May 23,1941	Canada	Apr.20,1946	Pipeline transportation in Canada	32.0

Affiliate:

Portland Pipe Line Corporation (100.0%)

Company	Incorporated	In	Acquired Interest	Business	% Ownership by Imperial
Northward Developments Ltd.	Aug. 7,1973	Alberta	Dec.21,1973	Development of employee housing at Fort McMurray	30.0
Nottingham Gas Limited	Jan.19,1959	Saskatchewan	Jan.19,1959	Constructing, owning and operating a gas gathering system and gas conservation plant in the Nottingham area	35.2
Rainbow Pipe Line Company, Ltd.	Sept.22,1965	Alberta	Oct.29,1965	Construct and operate pipelines in Alberta	33.3
Redwater Water Disposal Company Limited	May 26,1952	Alberta	May 26,1952	Gathering, storing and impounding water in Redwater Oil field	45.1
Smiley Gas Conservation Limited	Sept.17,1957	Saskatchewan	Apr. 1,1958	To own, construct and operate a gas gathering system and a gas conservation plant to serve the Smiley field in Saskatchewan	47.0
Syncrude Canada Ltd.	Dec.18,1964	Alberta	Jan.14,1965	Contractor for shareholders in conducting research; constructing and operating mining and processing plants; explorations for and production of hydrocarbons	31.2

Company	Incorporated	In	Acquired Interest	Business	% Ownership by Imperial
Tecumseh Gas Storage Limited	Sept.24,1963	Ontario	Dec.20,1963	Underground gas storage in Southwestern Ontario	50.0
Trans Mountain Pipe Line Company Ltd.*	Mar.21,1951 (Continued Apr.12,1972)	Canada	May 17,1951	Pipe line transmission of hydrocarbons and other commodities within and outside Canada	8.5

* Formerly Trans Mountain Oil Pipe Line Company, name changed by letters patent dated Apr. 12, 1972.

Affiliates:

Alpac Construction & Surveys Limited	(100.0%)
Beaufort-Delta Oil Project Limited	(20.0%)
Trans Mountain Enterprises of British Columbia Limited	(100.0%)
Trans Mountain Housing Limited	(100.0%)
Trans Mountain Oil Pipe Line Corporation	(100.0%)